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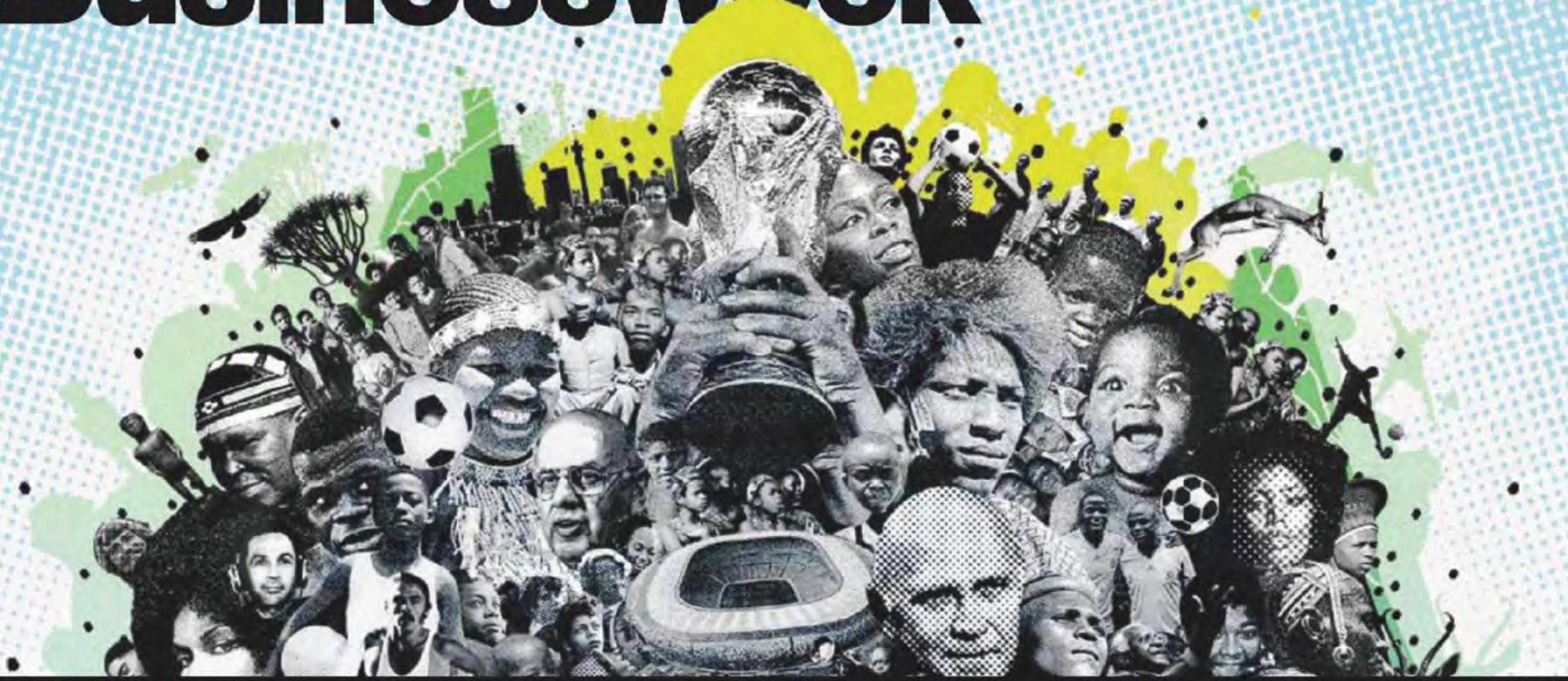
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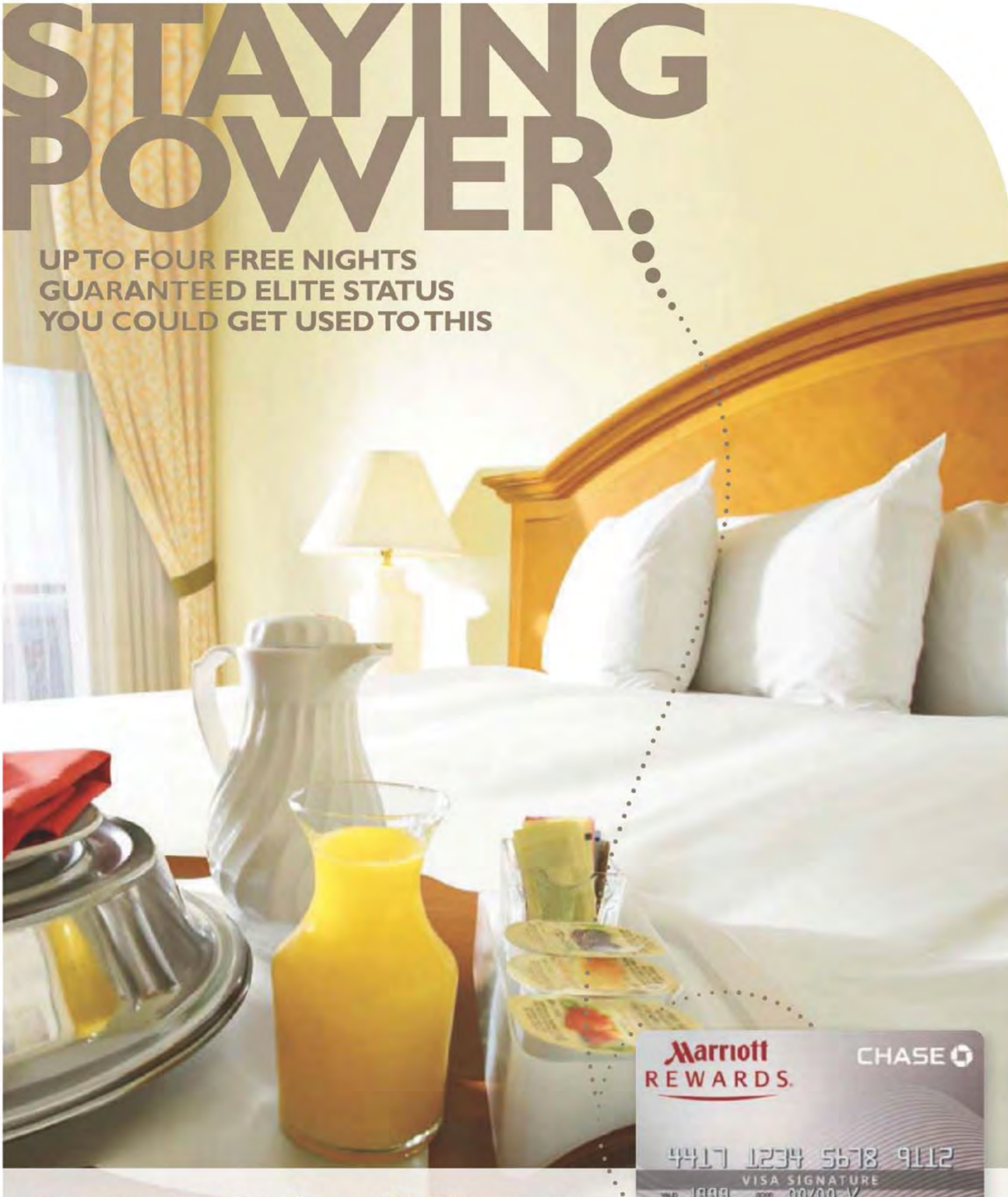
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Feedback

The Busy Mr. Libeskind

I am writing to add a brief postscript to Michael Arndt's informative piece ("Beautiful Impossibilities," Features, May 3-May 9). Indeed, I plead guilty to a positive outlook, but my optimism is confirmed by the magnitude of work currently in our office. Somewhat surprisingly, the article overlooked the largest commission in my career which we are working on every day in our office. It is the 600-acre, 24 million-square-foot, $28 billion DreamHub master plan for a new international business district in Seoul, South Korea.

At the same time, I am an architect who believes that architecture is not only about size. The house which is near completion in Connecticut is a once in a lifetime opportunity to intimately craft a private residence for great clients who are committed to architecture.

So, despite the industry's difficulties so clearly defined by Mr. Arndt, I am grateful to say that my office remains extremely engaged and amazingly profitable.
Daniel Libeskind
New York

Salud to Soft Drinks

"After the PR Party with Michelle Obama" (Politics & Policy, May 10-May 16) was inaccurate and misleading. The beverage industry is proud of its efforts to be part of the solution to childhood obesity, including our support of Mrs. Obama's anti-obesity campaign. But our efforts on this front have been under way prior to the First Lady's recent call to action.

Earlier this year, our industry announced the findings of our final report on the implementation of our School Beverage Guidelines, showing an 88 percent decrease in beverage calories available in schools.

Our efforts to be part of the solution extend beyond schools. By contributing to the First Lady's initiative, our industry is again leading with a meaningful program. America's nonalcoholic beverage companies are making the calories in their products even more clear and consumer-friendly by putting the information on the front of all their packages, vending machines, and fountain machines. Within two years, consumers will have the calorie information for their favorite beverages right at their fingertips.

We applaud Mrs. Obama for her commonsense, balanced approach to childhood obesity, which will require contributions from all segments of society. And we are proud to continue our leadership on this front.
Susan K. Neely
President & CEO
American Beverage Assn.
Washington, D.C.

Arizona: Not So Tough?

In reference to "The Wailing Wall" (Opening Remarks, May 3-May 9), the Arizona immigration law exactly mimics federal law, granting to local law enforcement the ability to call Immigration & Customs Enforcement. An arresting officer has to check status before the arrestee is released. Period. Any state-issued ID card is presumption of legal status, as one has to present proof of citizenship to obtain one. The bill adds nothing else. The one thing the Arizona statute does do differently is to allow private citizens to sue sanctuary cities such as Phoenix and Mesa to enforce the law. The law is hardly as onerous as illegal alien advocates portray it. As for the assertion that it is controversial, over 60 percent of Arizonans support it, according to two recent polls. The fear in the illegal alien advocacy community is that it might actually work.

Americans overwhelmingly want the border secured and illegal immigration stopped, but the problem is probably unsolvable. Low-wage employers will fight tooth and nail to keep wages low, to avoid the inevitable consumer backlash against higher costs. And Democratic politicians don't really want the problem solved, as that would deprive them of a cherished special-interest group they can use as a pawn in their war on conservatives. Lastly, there are legions of conservatives who view any path to citizenship as unacceptable amnesty and will demand the border be secured before anything else.
Rick Cunnington
Oro Valley, Ariz.

Corrections & Clarifications

● We were imprecise when we reported that four members of the Senate permanent subcommittee on investigations had received "substantial" donations from executives at Goldman Sachs (Opening Remarks, Apr. 26-May 2). In fact, 9 of 10 subcommittee members have received donations from Goldman, according to the Center for Responsive Politics. And we erred when we identified Senator Jon Tester (D-Mont.) as a "substantial" recipient. He received less than 7 of the 9 other members. ● "Videophones Are Coming. And This Time It's for Real" (Technology, May 3-May 9) suggested that a prototype of a new iPhone was found in a Silicon Valley bar on Apr. 18. Actually, word broke about the lost phone on Apr. 18. ● In "Beautiful Impossibilities" (Features, May 3-May 9), an illustration suggested that Daniel Libeskind designed the proposed One World Trade Center in New York City. Libeskind was responsible for the project's master plan, but the tower was designed by Skidmore, Owings & Merrill. Also, the story erroneously reported that Gensler's revenue fell to under $500 million in 2008. The correct year was 2009. ● In "Forget the DNA Sample, Get me the Vehicle" (Politics & Policy, May 10-May 16), we erred in describing the 1993 World Trade Center bombing case. A rented Ryder truck involved in the incident was destroyed. A suspect in the case reported the vehicle stolen and was apprehended when he tried to get back a deposit. ● "The Hole in High School Equivalency" (Politics & Policy, May 10-May 16) should have credited the illustration to Topos Graphics.

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Opening Remarks



France's Sarkozy and Germany's Merkel at the EU emergency summit in Brussels on May 7

The Trillion-Dollar Treatment

Europe is trying to fix its own raging fiscal disorder. So far it hasn't even nailed the diagnosis.

By Peter Coy

European leaders still don't understand what caused the Aegean Contagion that swept through the eurozone in late April and early May. Swedish Finance Minister Anders Borg blamed "wolf-pack behavior" by speculators. Others have railed against clueless rating agencies, feckless debtors, and unreasonable creditors. Then there are those who ask if there's an inherent flaw in the bond markets that made them cascade, turning vague worries into scary, self-fulfilling prophecies.

You can't defeat an enemy you don't understand, and unless Europe gets a better grasp on what went wrong, it will be vulnerable to more turmoil, even with the nearly $1 trillion backstop lending authority that calmed markets. "I still think it's a very fragile situation," says Gary Gorton, a Yale University economist.

The reality isn't all that complicated. Europe was vulnerable to contagion, and remains so, because its governance and its financial system are weak. It was lax fiscal oversight that allowed nations such as Greece to violate European Union rules on the size of their budget deficits in the first place. Overleveraged investors made matters worse: When the value of their Greek debt fell, they were forced to reduce the size and risk of their portfolio by selling other assets–the debt of Portugal and Spain, for example.

In retrospect, Europe's crisis was a done deal last November, when a new Greek government announced that its deficit-to-gross domestic product ratio for 2009 would be 12.7 percent, more than double what the previous government had projected and four times what the European Union allows. Interest rates on Greek debt, which had been nearly as low as rates on German bonds, inched upward. In a vicious circle, the higher rates themselves increased Greece's debt burden. That made default more likely and pushed rates even higher. On Apr. 27, Standard & Poor's lowered Greece's credit rating to junk. By May 7, the yield on two-year Greek government bonds hit 18 percent. Yields on Portuguese bonds reached 6 percent that day, double their level of three weeks earlier. Spanish and Italian credit was beginning to be affected as well.

Eventually the Europeans had no choice but to agree to a backstop lending arrangement for seriously threatened governments. That brought two-year Greek bond yields back down to a bit below 7 percent by May 12–about what an American might pay for a car loan but far higher than any other eurozone nation pays to service its debt.

Now that it has some breathing room, Europe needs to think hard about what just happened. The best place to start is with another contagion, the 2007-09 financial crisis that began with shoddy subprime mortgage lending in the U.S. In his new book, *Slapped by the Invisible Hand,* Yale's Gorton describes the dangerous tipping point that comes when

MICHEL EULER/AFP/GETTY IMAGES

investors lose faith in complicated financial instruments they once took for granted. Mortgage-backed securities had been treated like Treasuries—investors looked at the yield and the credit rating and didn't bother asking what was inside. When subprime mortgages started going into default, investors suddenly wanted to know if the securities in their portfolio contained any of those bad loans—and discovered they couldn't disentangle the assets. They got scared and bailed out. In Gorton's terminology, the securities went from being "information-insensitive" (a good thing for market liquidity) to "information-sensitive" (bad). Gorton says the same fate befell Greek bonds when players in the credit default swap market began digging up information pointing to a risk of default that bond investors hadn't bothered to ferret out in advance.

As with a physical disease, financial contagion spreads faster in a weakened population. Europe's problem is that many of Greece's creditors are themselves debtors on a massive scale. If the value of their assets declines, the only way they can stay solvent is by reducing their debt, and the only way they can pay down the debt is by selling assets, which pushes their price down even further, exacerbating the problem and spreading it to other securities. It's revealing that the ultimate beneficiaries of Europe's rescue are the big banks, not the Greeks, who will barely touch any rescue money before it goes out the window to their lenders.

To prevent a spreading financial contagion, then, it's not just the debtors that need to develop a stronger immune system. It's the creditors, too. As Princeton University economist Markus Brunnermeier pointed out in a 2010 paper, "Deciphering the Liquidity and Credit Crunch, 2007-2008," the big global investment banks became heavily dependent in 2007-08 on so-called repo financing. They borrowed money using bonds, asset-backed securities, and the like for collateral. Repo lenders give the best terms on overnight loans because there's less risk the collateral will lose value. But if borrowers can't roll over their debt, they must sell assets at fire-sale prices—and, in turn, stop extending loans to their clients. In 2007, according to Brunnermeier, repo lending that has to be rolled over daily amounted to some 25 percent of the assets of the 19 big U.S., European, Japanese, and Canadian primary dealers in U.S. Treasury securities. (The calculation is based on gross repo borrowing. They also make repo loans.)

Creditors are themselves overextended. They need to sell when others sell, spreading the problem

One might suppose that these large investment banks learned their lesson in the crisis and weaned themselves off overnight repo loans—which, after all, force them to scrounge up fresh loans every single day or go bust. Not quite. *Bloomberg Businessweek* updated Brunnermeier's calculation using publicly available data from the Federal Reserve Board and the Federal Reserve Bank of New York. As of the end of 2009, overnight and continuing repo loans were down more than 40 percent from their peak, but still funded 15 percent of the big banks' assets. Even after the pullback, overnight repo grew 155 percent from the beginning of 2000 through the end of April 2010. That compares to growth of just 82 percent in a broad measure of the money supply known as M2. Bottom line: A big chunk of their financing remains precarious.

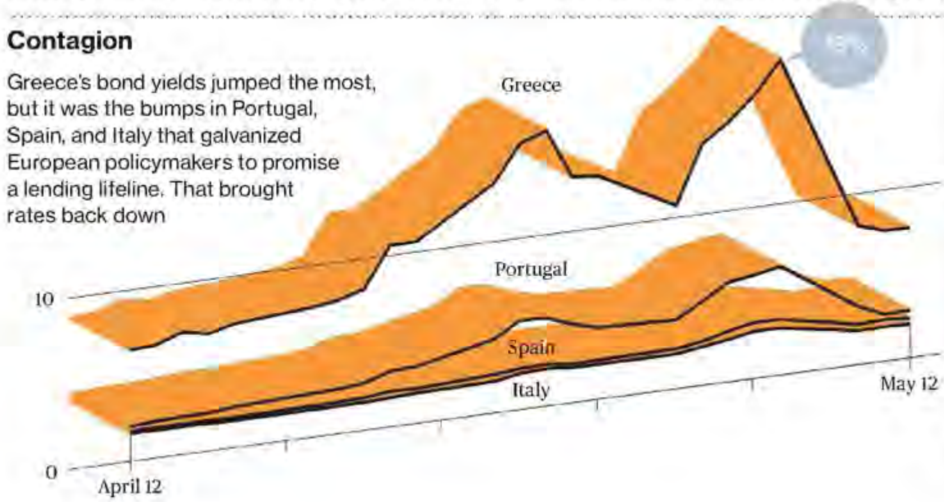
Many Europeans would prefer to blame the crisis on outsiders, the favorite scapegoats being speculators and ratings agencies. On Apr. 30, German Foreign Minister Guido Westerwelle called for the creation of a European credit rating agency. Complaining about the U.S. rating agencies, Pierre Lellouche, the French minister for European affairs, told *The New York Times:* "I'd be interested to know what these 30-year-old boys know about the disaster they are causing to people in Spain or Portugal or anywhere else." In reality, the rating agencies were no more than the bearers of bad tidings. Greeks are tired of having ancient ancestors quoted at them, but it's hard to resist citing Sophocles: "No one loves the messenger who brings bad news."

For countries with the highest deficits, the challenge now is to cut government spending and increase revenue in a time of slow growth or outright recession. It's not clear whether Greece in particular will be able to muster the social solidarity necessary to do so (page 9). It's equally difficult to see how Germany will go ahead with backstop loans to Greece if the country doesn't meet its commitments. "This deal is necessary. I don't know if it's sufficient," says Sandra Valentina Lizarazo, an economist at the Mexico Autonomous Institute of Technology who has studied emerging-market debt crises.

The EU's problems resemble those of the young and weak United States of America from 1781 until 1788, before the Constitution was ratified. Under the Articles of Confederation, the federal government had no power to tax. It relied on contributions from the states. Alexander Hamilton, who later became the nation's first Treasury secretary, warned in 1780 that "without revenues, a government can have no power. That power which holds the purse-strings absolutely, must rule." So Europe is discovering nearly 230 years later. For Europe, the strongest defense against another bout of Aegean Contagion would be a unified Continental government with authority over taxation and spending—a United States of Europe. A unified Europe would have the power to prohibit, not just remonstrate against, the fiscal frivolity that brought on this virus. Since such a political solution does not seem remotely possible, more bouts of fiscal sickness are all but certain.

Contagion

Greece's bond yields jumped the most, but it was the bumps in Portugal, Spain, and Italy that galvanized European policymakers to promise a lending lifeline. That brought rates back down



7



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Global Economics

Now It's Up to the IMF to Make Greece Shape Up

▸ **The fate of the euro may depend on the IMF's awkward partnership with the EU**

▸ **"The real question is whether the Greek people can endure painful restructuring"**

Even as Europe's leaders pledged a $1 trillion package to stop the Continent's financial crisis, doubts persisted about the nation that started it all. Greece, which has a separate bailout of $140 billion, still scares investors. Its stocks trade marginally higher than before the unveiling of the trillion-dollar plan, while its 10-year bonds, shunned by all but the most adventurous, still offer Western Europe's highest yields. The markets just don't trust Greece to clean up its fiscal act.

Three institutions—the International Monetary Fund, the European Commission, and the Greek government—must prove the markets wrong and, in the process, restore the reputation of the euro. "If not mission impossible, it's certainly mission highly improbable," says Morris Goldstein, a senior fellow at the Peterson Institute for International Economics in Washington and a former IMF deputy research director.

Fixing Greece will be a complex exercise. The aim is to cut Greece's budget deficit to below 3 percent of its gross domestic product by the end of 2014, from 13.6 percent last year. IMF officials, including First Deputy Managing Director John Lipsky, have conceded that the cuts, such as freezing pensions and cutting civil servants' pay, will be "painful." IMF Director Dominique Strauss-Kahn warned that success hinges on Greek support "beyond political party lines."

The European Commission, which enforces the policies of the European Union, will handle quarterly reviews of Greece's progress. If the Greeks meet their targets, every quarter they will get another piece of the $140 billion, which will fully cover Greece's financing needs into 2012. If the Greeks don't reach their goals, the commission and the IMF can withhold funds or even ask for more austerity measures.

Policymakers hope this strategy succeeds better than their usual tactics of chastising fiscal renegades. The original, German-inspired approach was to threaten fines against countries that didn't respect the EU's limit on budget deficits of 3 percent of GDP. This arrangement failed because it largely relied on peer pressure, which Europe's consensus-driven leaders were reluctant to apply.



The question is whether the EC will hold the Greeks' feet to the fire. It is working with the IMF, which is providing $38 billion of the total aid package. Since the EC is senior partner, the IMF must play an unfamiliar supporting role.

The IMF has bailed out nations from Turkey to Korea and has far more experience playing the heavy than the EC. It suspended payments to Romania in November after political infighting toppled the government, and only paid up when a new government passed an austerity budget. The IMF in March 2009 froze a $256 million payout to Latviaafter the country failed to commit to budget cuts.

The IMF may need to be especially strict with Greece because its reputation is at stake, says Eswar Prasad, a senior fellow at the Brookings Institution in Washington and a former IMF official. "If they ease up, markets may set less store in the IMF's ability to effect policy changes," he says. The wild card is the commission. It may act tough to please the Germans, who balked for months at bailing out Greece. Or it could bend to the will of European governments more sympathetic to the Greeks.

Then there are the Greeks themselves. On May 6 lawmakers in Parliament voted for austerity measures, 172 to 121—a good margin of victory for an ordinary bill but not the unanimous show of resolve European leaders had hoped for. Polls conducted for the *Proto Thema* newspaper showed 55 percent of Greeks favor the measures. A majority had opposed them a week earlier.

Paul Mylonas, chief economist at the National Bank of Greece, anticipates social unrest will moderate this year as Greeks grow resigned to their fate. Yet he adds: "There's a higher risk of opposition in 2011 and 2012 if light

ILLUSTRATION BY SOPHIA MARTINECK



Get used to it, Big Oil
page 17 ▶

doesn't appear at the end of the tunnel."

Greek business is behind the reforms, up to a point. "Our will is a given," Dimitris Daskalopoulos, head of the Federation of Greek Industries, said on Apr. 29. "Businesses can and will contribute." On May 3, though, the federation protested a government plan to impose a special tax on Greece's most profitable companies.

"The real challenge is whether the Greek people can endure painful restructuring," says Lee Keon Hyok, who as an IMF officer worked on Indonesia's bailout in 1997-98, and who now works at Samsung Economic Research Institute in Seoul. He recalls his own country's 1997 bailout. South Korea repaid its $57 billion loan from the IMF in 2001, three years ahead of schedule, "as the people united and donated gold rings to help restore foreign currency reserves," says Lee. It's hard to imagine the Greeks are ready to do that yet. *—Sandrine Rastello, Maria Petrakis, and Jonathan Stearns*

The bottom line *The European Commission will control the overhaul of Greece, but needs the IMF's experience.*

Sovereign Debt

Tiny Estonia and the Art of Penny Pinching

- ▶ The Baltic state readily qualifies for membership in the euro club
- ▶ "A model of fiscal discipline" despite a bumpy 2009

While Europe convulses over its deficits, one country has been pinching pennies. The Baltic nation of Estonia (pop. 1.3 million) will outperform the 16 euro nations on the European Union's fiscal criteria this year, according to the European Commission. On May 12 the EC backed Estonia's bid to join the euro zone. Says Christian Keller, chief economist for emerging-market currencies at Barclays Capital: "Estonia seems a model of the fiscal discipline that the EU now wants for the entire euro area."

Since independence from the Soviet Union in 1991, Estonia has adopted a convertible currency, free trade, privatized industry, and a flat tax. To join the euro zone, it cut its debt to 7.2 percent of gross domestic product and its budget deficit to 1.7 percent of GDP.

Estonians, though, gained an appetite for imports, which resulted in a huge trade deficit. The government struggled to contain inflation, a weakness the European Central Bank has warned Estonia about. Finally, a property bubble burst when credit got tight. Estonia's economy contracted 14 percent in 2009. It's expected to return to growth in 2010. *—Ott Ummelas*

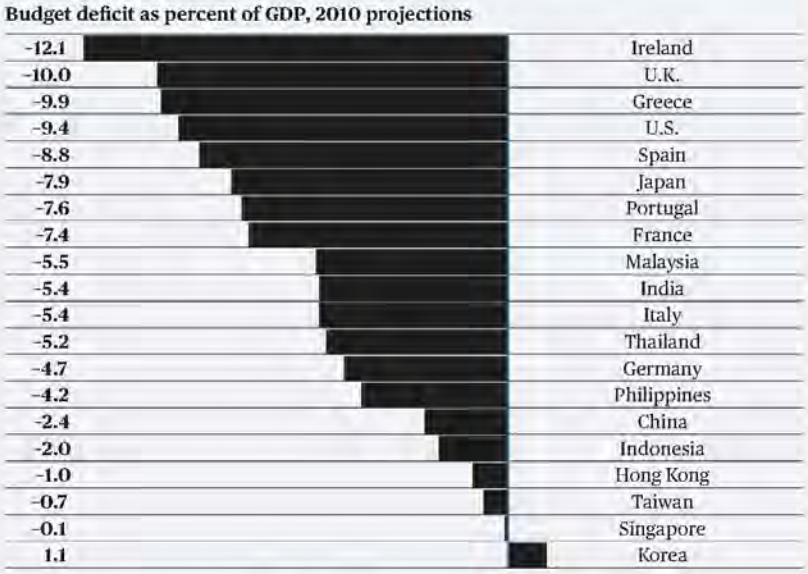
The bottom line *A tightly controlled budget is the fastest ticket into the euro zone, but it doesn't always guarantee a smoothly functioning economy.*

Budget Deficits

The Saved and the Damned

Markets have focused on the weaker members of the euro zone. Pull back a little, though, and you get a picture of the countries best positioned to weather the current turbulence. Except for Japan and possibly India, Asia countries have been more careful with their budgets than their Western counterparts.

Budget deficit as percent of GDP, 2010 projections



DATA: ECB, BANK OF AMERICA/MERRILL LYNCH, EIU, U.S. CONGRESSIONAL BUDGET OFFICE

Monetary Policy

Inflation Is Quiet. Maybe Too Quiet

- ▶ The jobless number is so high there's little upward push on prices
- ▶ "One signal of deflation is if money supply grows very slowly"

Michael Feroli, chief U.S. economist for **JPMorgan Chase,** remembers the phone calls two years ago from clients "freaking out" about inflation. Federal Reserve Chairman Ben Bernanke had just launched his campaign to prevent the collapse of the financial system. He was pumping liquidity into the economy by making emergency loans to banks and buying mortgage-backed securities by the billions. He was also driving benchmark interest rates almost down to zero. Many investors feared Bernanke would trigger a price surge as consumers and companies borrowed more to spend, spend, spend.

Today, rates are still near zero, and liquidity is near a record high. Yet those client calls about inflation, says Feroli, have "dried up to a trickle." There's even talk of prices heading down.

Feroli and many other economists wonder just when inflation will make enough of a comeback to warrant a rate hike. That's turning out to be a hard call. Forty-seven economists in an Apr. 1-8 Bloomberg survey figured that, on average, rates would rise by Thanksgiving. Feroli and his boss Bruce C.

Kasman, JPMorgan's chief economist, don't foresee a rate rise until the second quarter of 2011. Other economists predict a hike even later than that.

The big factor keeping a lid on inflation is the jobless rate, which has stayed above 9 percent since May 2009. This near-record stretch of joblessness has held down wages and consumption. The Fed's preferred inflation gauge—the core personal consumption expenditures price index, which strips out price hikes in food and energy—rose at an annual rate of 0.6 percent in the first quarter, the slowest pace since records began in 1959, according to the Commerce Dept.

Retailers feel every day how weak their pricing power is. Bentonville (Ark.)-based **Wal-Mart Stores** cut prices on more than 10,000 items after sales at U.S. stores opened at least a year fell 1.6 percent in the fiscal quarter ended Jan. 31. **Home Depot,** the largest U.S. home improvement retailer, lowered prices in March on flowers, fertilizers, lawn equipment, and outdoor furniture, according to Craig Menear, executive vice-president for merchandising.

Inflation this low can sometimes slip into deflation. A drop in prices effectively boosts the cost of a loan, since a company finds it harder to generate the profit it needs to service its debt. Deflation has gripped Japan for years and proved impossible to stamp out.

The money supply, which grows robustly when banks are lending and consumers are borrowing, also points to declining inflation. The broadest measure of the money supply expanded at an annual rate of just 1.4 percent in the 12 months through April, vs. 8.4 percent a year earlier. That's a clear sign that consumers have switched from borrowing to saving. Says Gabriel Stein, a director at Lombard Street Research in London: "One of the signals of threatening deflation is if money supply grows very slowly." We're not in a deflation zone yet, but economists in the Bloomberg survey predicted inflation of only 1.2 percent this year, vs. 1.54 percent for 2009. All the more evidence, says Feroli, that rate hikes will be a long time coming: "The inflation data continue to look weaker and weaker."

—Joshua Zumbrun

The bottom line *Inflation is low, and may stay low, because the high unemployment rate is forcing companies to keep a lid on prices.*



Neo-Neon boss Fan is cutting his China workforce to 5,000 from 25,000 as he expands in Vietnam

PHOTOGRAPH BY TONY LAW FOR BLOOMBERG BUSINESSWEEK

Manufacturing

As Wages Climb in China, Factories Move

- A labor shortage is trimming margins for exporters
- "Wal-Mart won't raise what they pay us," says a factory manager

As costs climbed in Taiwan two decades ago, Ben Fan moved his lighting factory to take advantage of China's cheap labor. Now, with Chinese wages on the rise, he's moving again. "It's just like what happened in Taiwan," says Fan, chairman of **Neo-Neon Holdings**, which sells lamps and lighting fixtures to big retailers including **Home Depot**, **Target**, and **Wal-Mart**. "Chinese don't want to work in factories anymore."

So Fan is expanding his factory in Vietnam, where wages are $100 a month, one-third what he pays in China. He plans to shift 85 percent of his production across the border, and by December he'll have 8,000 workers in Vietnam—up from 300 a year ago—and just 5,000 in China, down from 25,000 in 2008.

Over the past two years, millions of jobs have moved to China's interior or elsewhere in Asia as factory owners try to cut costs. In Guangdong, the mainland's top exporting province, wages have almost doubled in the past three years, and more than half the factories can't find enough workers. The number of migrants who traveled to coastal provinces for work fell by 9 percent last year, to 91 million. "This lack of labor will only get worse," says Willy Lin, chairman of the Textile Council of Hong Kong, a trade association.

Factory owners complain that the higher wages are devastating profits, especially as their customers continue to squeeze them for lower prices. "Wal-Mart won't raise what they pay us," says Poh-Heng Toh, general manager of teddy bear producer **Lovely Creations**. Another Wal-Mart supplier, jewelry maker **Profit Grand**, has cut its staff to 450 from 600 largely because it can't find workers at the rates it's willing to pay, says Chairman Hsu Chi Lin. Wages, Hsu says, have risen from 2 percent of total costs a decade ago to 12 percent today, while net margins have fallen from 15 percent to about 8 percent. Factory owners are also worried about a potential revaluation of China's currency. The yuan is up 21 percent vs. the dollar since 2005, and

Global Economics

many economists expect it to rise an additional 5 percent this year.

While China's growth—11.9 percent in the first quarter—is a factor in the labor shortages, they likely won't disappear once the economy cools. The country's one-child policy means fewer people are joining the workforce. Tax breaks for farmers and subsidies for companies setting up in the interior have allowed more people to find work near home. And a growing service sector means greater opportunities lie beyond the factory gate. "The younger generation is trying to get work that is much easier—waiting tables in restaurants or working in supermarkets," says Charles Yang, general manager of **Apache Footwear**, which makes shoes for **Adidas**.

Many companies are finding ways to pare costs. Electronics giant **Foxconn Technology**, which makes the **Apple** iPhone and handsets for **Motorola**, has opened new plants in China's north and west, far from its home base near Hong Kong. Shoemaker Apache has moved simpler work, such as stitching the upper portions of sneakers, from Guangdong to lower-wage factories in the interior. Apache is also expanding a plant in Chennai, India, that will produce at least half its shoes within five years. The company's Chinese workforce will soon drop below 10,000, from 18,000 two years ago, general manager Yang says. "We've been squeezing like hell to get more out of the system," he says.

No one expects manufacturing to disappear from coastal China. The networks of suppliers for industries from textiles to electronics—makers of buttons, zippers, wires, connectors, and the like—can't be easily replicated elsewhere. Many companies plan to keep more sophisticated work in eastern China while moving basic tasks elsewhere. Neo-Neon, for instance, expects to boost production of LED lighting in China even as it expands in Vietnam. Chinese workers today "want easy jobs and higher pay," says Fan. "We can give them that if we make more expensive, higher-margin products."

—Dexter Roberts, with Bob Chen

***The bottom line** Rising wages in coastal China are spurring manufacturers to open factories in cheaper places, though more advanced production may stay.*

Quoted



I don't think Greece is in nearly as bad a condition as people think. What the Greeks want is the European governments to give them money, a little more expensive [than what the IMF charges], but a lot cheaper than what the free market would charge.
—Ken Fisher,
Fisher Investments

Real Estate

The Land Rush In Hong Kong

▸ The long post-handover price slump is finally over

▸ "If they can buy those cars in China, they can invest in Hong Kong"

Until recently, Hong Kong property agent Clarence Chow didn't pay much attention to would-be buyers from mainland China. In 2008 they represented just 3 percent of revenue for Chow and his team of 58 agents at Centaline Property Agency.

Today Chow hardly thinks of anyone but mainland clients. The nearly $2 trillion in stimulus spending and bank loans pumped into the Chinese economy to fight the downturn has made a lot of business owners rich. These millionaires are flocking to Hong Kong and now account for over 20 percent of sales for Chow's team. His agents are searching for more mainland customers by scouring government documents for people who bought BMWs, Mercedes, Lamborghinis, and other deluxe models. "If they can buy those cars in China," says Chow, "they can invest in Hong Kong."

Chinese buyers are helping drive a rebound for Hong Kong's residential property market, which has yet to recover fully from the crash that followed the former British colony's return to Beijing rule in 1997. Last year the Centaline property index jumped 29 percent and is now at its highest level in a dozen years. Earlier this year a home on the Peak, the most prestigious neighborhood in town, sold for $7,775 per square foot, a record.



Checking out model apartments in Hong Kong: Chinese are buying throughout the city

People who follow Hong Kong real estate estimate mainland Chinese make up about 35 percent of the luxury market and 15 percent of the mass residential market. Some are buying to avoid taxes: The Chinese and Hong Kong tax agencies are separate entities, and Hong Kong taxes are far lower. Other Chinese sense an opportunity to make a killing. A growing number want immigrant status, which earns them a much coveted Hong Kong passport. They get such status by investing a minimum of $840,000 in property. "People are coming here for themselves or their kids," says Nicholas Kwan, head of research in Hong Kong for Standard Chartered Bank. That price "is not that big an amount for many of the wealthy in China."

Hong Kong developers increasingly cater to Chinese fondness for chandeliers, marble, and other wealthy touches. Unlike local buyers, Chinese don't expect to find luxury homes solely in prestige neighborhoods. Mainlanders also pay



top dollar in less upscale districts like West Kowloon and even in middle-class suburbs in the New Territories. "Mainlanders don't know much about Hong Kong," says Joseph Tsang, local head of capital markets for Jones Lang LaSalle.

The only thing that could spoil things is the long arm of China's central government, which is trying to cool its economy and deflate property prices in mainland cities. Beijing's campaign could spill over into Hong Kong. "If we have tighter liquidity, there will be less demand coming through," says Eva Lee, an analyst with Macquarie Securities in Hong Kong.

For now, Centaline's Chow says sales are up 15 percent this year. One Chinese buyer walked in, introduced himself, and said money was no object. Chow's agent showed him various properties, each pricier than the last, until he bought two houses for a combined $74 million. Best of all? "He's still buying," says Chow.
—*Bruce Einhorn*

The bottom line *Hong Kong authorities want Chinese business, but they have to make sure no bubble ensues.*

FROM LEFT: FISHER INVESTMENTS/BLOOMBERG; IMAGINECHINA; ANDREW HARRER/BLOOMBERG

Central Banks

Monsoons, Food Prices, And Hot Money

▶ **Duvvuri Subbarao steered India out of recession, but inflation looms**

▶ **"If you get high growth you can run high deficits"**

Ben Bernanke and Jean-Claude Trichet may seem to have the toughest central bank jobs going—until you consider Duvvuri Subbarao. The former World Bank economist became governor of the Reserve Bank of India in September 2008, just days before Lehman Brothers collapsed. He spent his first months slashing interest rates to keep India's economy growing. Then the crucial monsoons failed to arrive, which sent food prices skyrocketing. Now, India is struggling with a stubborn budget deficit—6.9 percent of gross domestic product for the year ended in March—and

Tom Keene EconoChat

Tom talks with Stephen Roach, Asia chairman of Morgan Stanley, about China, the Europe crisis, and the ECB

How will the Chinese react to the European crisis?
China's biggest export market is Europe, now larger than the United States. They view the crisis as a negative to the external demand that they need.

Why can't we clear the markets in this crisis as quickly as we did in 1998 when the Asia crisis peaked, Russia defaulted, and Long-Term Capital Management imploded?
Over the last 25 years we had an average of one crisis every three years. The gap this time is 18 months. The scale is bigger. And we [now] have product contagion from subprime to mortgage-backed securities, back to cross-border contagion within the euro zone. This interplay between cross-border and cross-product contagion is very difficult to unravel.

What is the price of what we are seeing in Europe?
With every fix comes an adjustment in the real economy. We saw that in Asia in the late '90s. We saw that in the U.S. in 2008 and 2009, and we are going to see it in Europe, certainly in the peripheral countries, with significant contractions in the years ahead. So this concept of the global double dip is alive and well.

What will the impact of the crisis be on the European Central Bank?
We see the politicization of once fiercely independent central banks. It's very worrisome for their credibility and inflation-fighting mission.



Keene hosts Bloomberg Surveillance *7-10 a.m., 1130AM in New York, XM129, Sirius 130.*

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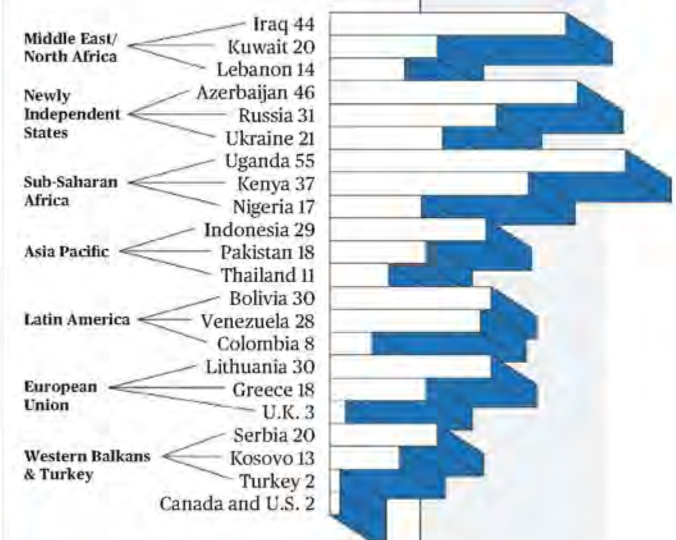
The Underground Economy

Graft Around the Globe

Transparency International (TI), the Berlin-based anticorruption watchdog, cites Greece as a problem area for Europe. Greece is not alone, however. The Middle East, sub-Saharan Africa, and the old Soviet bloc all wrestle with corruption. Figuring out bribery's cost is tricky. Here, *Bloomberg Businessweek* presents some results of TI's research, as well as reporting by Bloomberg correspondents and the editors of *Bloomberg Businessweek*'s local language editions.

How many people pay

Percentage of respondents who reported paying a bribe in the previous 12 months

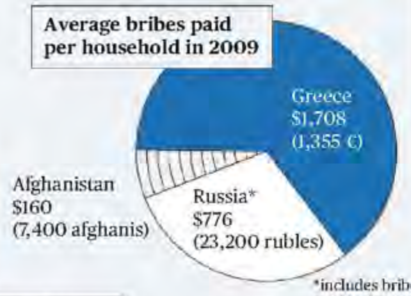


Data: Transparency International, 2009 Global Corruption Barometer, based on survey of 73,132 people in 69 countries

How much does it cost to pass a restaurant health inspection

Lebanon $300 (450,000 Lebanese pounds)

Average bribes paid per household in 2009



*includes bribes paid by businesses

How much does it cost to fix a traffic ticket

Kiev, Ukraine	$6.30 (50 hryvnas) for speeding
	$13 to $19 (100 to 150 hryvnas) for running a red light,
	$500 (3,900 hryvnas) for drunk driving
Istanbul, Turkey	$33 (50 Turkish lira) for general traffic violations
Johannesburg, South Africa	$7 to $27 (50 rand to 200 rand) for general traffic violations
Delhi, India	$6 (300 rupees) for crossing the lane into opposing traffic,
	$8 (400 rupees) for running a red light
	$10 (500 rupees) for speeding
Jakarta, Indonesia	$2 to $5 (20,000 to 50,000 rupiahs) for general traffic violations
Bangkok, Thailand	$3 to $6 (100 to 200 baht) for general traffic violations
Mexico City, Mexico	$40 (500 pesos) for driving your car on a no-drive day*
	$4.00 to $16.00 (50 to 200 pesos) for general traffic violations

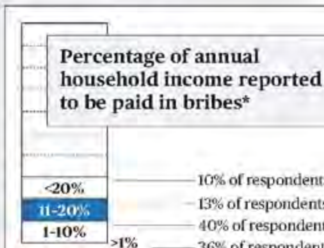
*to decrease pollution and traffic, every car has to stay off the road once a week

How much does it cost to get a construction permit



*5000 to 500,000 Turkish lira
**10.5 million to 15 million Lebanese pounds
***50 to 5,000 €

Percentage of annual household income reported to be paid in bribes*



*Based on survey of 73,132 people in 69 countries

Data: Transparency International, Bloomberg BusinessWeek estimates, Russian Interior Ministry, U.N. Office on Drugs & Crime

inflation of almost 15 percent.

It's not an easy hand to play for the 60-year-old Ohio State graduate, who earns praise from many economists. Subbarao and his team "have done a very good job," says Timothy Condon, chief economist in Singapore with ING Financial Markets. Having helped India avoid severe recession, Subbarao has raised rates 50 basis points so far this year. He's likely to raise them by another 100 points, to 6.25 percent, by yearend, says Rahul Bajoria, an economist in Singapore with Barclays Capital. The economy is expected to grow almost 9 percent in 2010.

The problem is that inflation has spread as manufacturers face steeper prices for fuel and other raw materials. Unlike China, India lacks world-class infrastructure that lowers the cost of moving goods. The Finance Ministry also has trouble cutting the budget since much of it is spent helping the very poor afford food. Subbarao "has very little flexibility," says M. Govinda Rao, director of the National Institute of Public Finance & Policy in New Delhi.

Subbarao has switched from slashing to raising rates, but inflation persists

Still, many economists believe the deficit won't overwhelm India. Most of India's debt is held by local investors, says Dharmakirti Joshi, chief economist with Standard & Poor's unit Crisil in India, so a bondholder panic is unlikely. Robust GDP growth helps, adds Joshi: "If you get high growth, you can run high deficits."

Subbarao's next battle is taming the hot money that flows into countries like India, often fueling bubbles and then exiting fast. India "may well employ" capital controls to protect its financial system, Subbarao said on Apr. 26. B

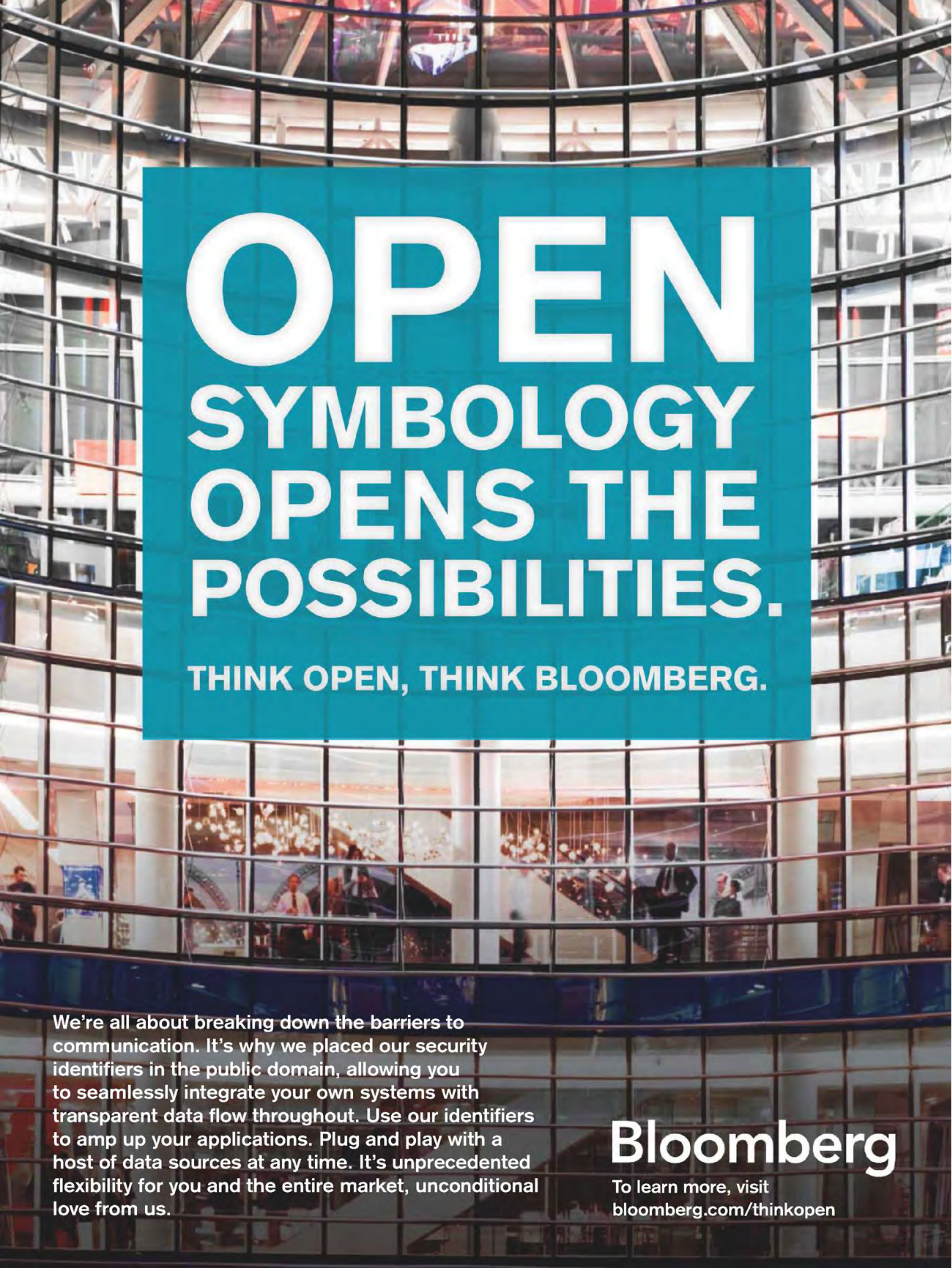
—*Bruce Einhorn with Unni Krishnan*



J. SCOTT APPLEWHITE/AP PHOTO

The bottom line *Analysts expect the deficit and inflation to ease. If the next monsoon disappoints, problems will persist.*


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Companies&Industries



Protestors at a May 11 Senate committee probe of the oil spill

The Paradox of Deep Water: Lots of Oil, Lots of Danger

▶ The ability to extract oil in hard-to-reach places has zoomed ahead. Disaster preparation has not

▶ "There is an enormous amount of learning going on. We're doing it for real [for] the first time"

On May 7, in a darkened room called the hive at **BP**'s command center in suburban Houston, technicians were closely watching video feeds from the oil company's underwater robotic vehicles. They showed a 40-foot-tall concrete-and-steel device called a container dome being carefully lowered into the depths of the Gulf of Mexico. BP executives had great hopes the dome could help siphon off most of the oil from its ruptured well that was spewing an estimated 5,000 barrels of oil each day into the Gulf. The device soon proved to be a bust. Said BP Chief Executive Officer Tony Hayward: "There is an enormous amount of learning going on here, because we are doing it for real [for] the first time."

Oil executives like Hayward had better get used to a steep learning curve. While the magnitude of the BP spill has captured headlines, the operation that precipitated the disaster wasn't out of the ordinary. Operating in deep water has become a major focus of oil companies, thanks to big undersea deposits, drilling advances, and the willingness of nations such as Brazil and the U.S. to allow rigs off their shores. While drilling at depths of 5,000 feet or more was almost unheard of 20 years ago, about 6 percent of world oil production now comes from deepwater wells. And that is set to double over the next 20 years, according to Peter Jackson, an analyst at IHS CERA.

More than 50 percent of U.S. oil output and a quarter of overall production comes from deepwater drilling

Indeed, 6 of the world's 10 largest discoveries in the last two years have been in deep water, believed to be home to much of the remaining large energy deposits outside the Middle East. Deep water is crucial to production in the U.S., where it accounts for more than 50 percent of offshore output and about one-quarter of overall production.

"There is going to be subsea exploration because there has to be," says **General Electric** CEO Jeffrey

ANDREW HARRER/BLOOMBERG

The charmed life of hedge funds
page 27 ▶



Immelt. "If it doesn't happen here it is going to happen off the coast of Angola, the coast of Brazil, other places around the world."

As the BP accident shows, the oil industry is not fully prepared for this new reality. Over the last 30 years, BP and other companies have pushed into deeper and deeper water with remarkably few serious incidents. The Macondo well on which the BP-leased Deepwater Horizon rig encountered disaster on Apr. 20 was in 5,000 feet of water, now a normal operating environment for BP and other oil giants. Italy's **ENI**, for instance, operates a field in similarly deep water just miles from BP's troubled project with no problem.

18%

Estimated growth in demand for energy around the world over the next decade

While this benign track record may not have lulled the companies into complacency, they have never before been forced to face up to how difficult it might be to deal with an accident on the sea bottom at depths of a mile or more. "The industry has drilled over 5,000 wells in greater than 1,000 feet of water and has not hitherto had an issue of this sort to contend with," says Hayward. "You can have all sorts of theoretical capability available, but until you actually get to use it in anger, it's difficult to figure out what is necessary."

Perhaps that's because the technology of deepwater drilling has also outstripped the methods of cleaning up a potential mess when things go wrong. BP and its fellow oil majors have spent tens of millions on seismic techniques for acquiring data under the salt layers often found in deepwater and on the supercomputers and scientists needed to analyze the results. But the company's response when things went awry, at least to this spill, has been surprisingly old school. BP has ordered up a flotilla of skimmer ships, launched an air force of planes to drop chemical dispersants onto the expanding slick, dispatched 1.2 million feet of boom barriers to trap floating oil, and employed an army of beach and swamp cleaners. None of this activity addresses the key issue: how to stop the continued leaking of oil.

"As the industry goes further offshore, the level of investment in research has to be comparable for cleanup as for exploration," says J. Robinson West, chairman of Washington-based consultants PFC Energy.

It's become clear that the industry has no surefire way of dealing with problems on the sea bottom a mile below the surface. That's one reason some environmentalists are already arguing that deepwater drilling should be banned outright. "Disaster response plans are totally inadequate," says Athan Manuel, lands protection director at the Sierra Club. "There is no such thing as safe offshore drilling."

Still, with global energy demand estimated to grow by up to 18 percent in the next 10 years, energy producers will have no choice but to exploit oil deposits under thousands of feet of water, says Robert Fryklund, vice-president for industry relations at consulting firm IHS.

That's why the Macondo mess may lead to stiffer requirements designed to reduce the likelihood of future accidents rather than a drastic reduction of offshore activity. On May 11, Energy Secretary Ken Salazar announced moves to toughen inspections and oversight of offshore drilling rigs. The Obama Administration had already announced a 30-day moratorium on new drilling permits and that it would separate the safety operations of the federal Minerals Management Service from its royalties and leasing functions.

The Administration hasn't publicly backed away from offshore drilling. That stand will be put to the test as congressional hearings continue into safety procedures used by oil companies—or if the growing spill begins to foul the U.S. coastline rather than just the sea itself. "This will always be a risky industry," says John Hofmeister, a

Entertainment

Hollywood's Big Bets on Summer Movies

Iron Man 2 has Hollywood picturing a record summer. The movie pulled in $128 million in its U.S. opening last weekend, beating the original film's $98.6 million debut. That fast start, plus higher ticket prices for 3-D movies, may push the industry past last summer's $4.25 billion, says Paul Dergarabedian, president of Hollywood.com's box-office tracking unit.



The Twilight Saga: Eclipse
Summit Entertainment

Women and girls made the first two *Twilight* movies over-the-top successes for producer Summit Entertainment. The studio, looking to lure more boys, hired horror director David Slade to add vampire-vs.-werewolf action and a darker tone.

Iron Man 2
Marvel Studios

Robert Downey Jr.'s swaggering interpretation of the billionaire crime fighter helped the first movie reach beyond fans of the Marvel comic books. This time, Downey gets help from new co-star Mickey Rourke, who appears as the movie's chief villain, Whiplash.

Shrek Forever After
DreamWorks

DreamWorks Animation releases the fourth and final episode of films about a genial ogre. At least some of the *Shrek* cast of characters will live on, however. The studio is developing a spin-off, *Puss in Boots*, voiced by Antonio Banderas.

Toy Story 3
Pixar

Pixar launched a landslide of computer-animated movies when it released its first full-length feature in 1995. Walt Disney, now Pixar's owner, plans to revive the franchise with 3-D. Disney whetted appetites last year by re-releasing the original *Toy Story* in 3-D.

Inception
Warner Bros.

Director Christopher Nolan proved with his *The Dark Knight* that he can please crowds and critics. Time Warner is betting he will do the same with *Inception*, a thriller starring Leonardo DiCaprio about a firm that steals its customers' minds.

former president of Royal Dutch Shell 's U.S. business. "There is going to be constant scrutiny of how much risk for how much gain."

—Stanley Reed and Joe Carroll, with Rachel Layne and Jessica Resnick-Ault

The bottom line *Oil companies like BP have plenty of experience drilling in deep water. They're still relative newcomers on dealing with disaster.*

Oil

Little Nalco Will Benefit From BP's Spill



- The company's dispersant chemicals break down the oil slick
- Warren Buffett is the company's biggest shareholder

BP's assault on the growing spill surrounding its runaway well in the Gulf of Mexico has been good news for **Nalco.** The suburban Chicago-based company makes the oil-dissolving chemicals, known as dispersants, used to break up the oil slick, and has increased its production by ten times since the incident. More than 430,000 gallons of dispersant have been used so far in the Gulf. The idea is to break the oil into millimeter-size chunks that will be absorbed into the water. Some lawmakers and fishing groups have asked the government to determine if the chemicals can cause harm.

Dispersants represent less than one percent of Nalco's revenues. It also makes chemicals that increase the flow of oil through pipelines and in refineries. Shares are up 5.9 percent since May 3.

That's good news for investor Warren Buffett. His **Berkshire Hathaway** is Nalco's largest shareholder, with a 6.5% stake.

—Jessica Resnick-Ault

The bottom line *Business is good for a low-profile company making products that help clean up the oil spill in the Gulf.*

Television

Can Fox Hang On To Its Lead?

- The heat is on programming chief Kevin Reilly
- "There are icebergs ahead. ... *Idol* is starting to shows signs of age"

Kevin Reilly, Fox Broadcasting's entertainment president, is racing to find new shows. His worry is that the network's buoyant ratings could sink once Simon Cowell, the caustic talent judge and star of *American Idol*, leaves the successful singing competition this month after nine seasons.

The Fox programming chief wants to remake a network that has relied on *Idol*, hour-long dramas, and cartoon comedies to lead in the crucial 18-to-49-year-old viewer category for almost six years. In addition to Cowell's exit from *Idol*, TV's most watched show, Fox is losing Kiefer Sutherland and his popular thriller, *24*. The network needs fresh fare, especially because 18-to-49 ratings for both *Idol* and a medical drama, *House*, are slumping.

Reilly, 47, insists he welcomes the challenge. "It's a high-class problem to have," he says. "The shows are still very strong. But if we don't come up with new shows for two years, we could be in the same shape as some of the other networks." He's charting a course toward comedies; Fox may air as many as four new ones this fall. Reilly won't say yet which shows Fox will unveil at its May 17 upfronts, the annual event in New York where TV networks preview shows for advertisers. Among the candidates: *Running Wilde*, featuring *Arrested Development* star Will Arnett as a Beverly Hills jerk who falls for an environmentalist. "Everyone has reality shows now, and folks want a good laugh," Reilly says.



Reilly celebrating with *Glee* star Lea Michele at a Fox party in January in Pasadena, Calif.

Others are less optimistic about the strategy. The ratings dip for *Idol* and *House*, along with the conclusion of *24*, have led Spencer Wang, an analyst at Credit Suisse in New York, to predict that **News Corp.**'s broadcast network will see less growth in advance advertising sales for the TV season that starts in September.

Wang, who has a neutral rating on News Corp. shares, estimates Fox's upfront ad sales will increase 14 percent from last year's $1.6 billion. His Apr. 29 report predicts gains of 20 percent to 30 percent for the network's competitors. "There are icebergs ahead for Fox because *American Idol* is starting to show signs of age,'" says Brad Adgate, head of research for the ad-buying company Horizon Media.

Class A shares of News Corp., the New York-based media company controlled by Chairman and Chief Executive Officer Rupert Murdoch, have gained 6 percent this year and on May 12 closed at 14.51. News Corp. also owns the Fox film studio and *The Wall Street Journal*.

Reilly, whose résumé includes shepherding production of the HBO hit *The Sopranos*, has a record of sniffing out winners. In two tours at NBC he was part of the team that developed *ER* and *Just Shoot Me*. Before being fired in an NBC power struggle in 2007, he led development of *The Office* and *30 Rock*.

At Fox, Reilly developed the animated hit *The Cleveland Show* and *Glee*, a one-hour musical comedy that has become one of this season's biggest hits, ranking as the network's most watched show in the latest weekly ratings after *Idol*, according to Nielsen. Overall, Fox's ratings among 18-to-49-year-olds are up 3 percent in the TV season that started in September, Nielsen data show. Cowell is expected to return to Fox in late 2011 with a music-based competition show called *The X Factor*.

—Ronald Grover

The bottom line *Fox needs to bolster its lineup in response to the departure of* American Idol *star Simon Cowell and the conclusion of thriller* 24.

FROM LEFT: MELISSA MOSELEY/WARNER BROS. ENTERTAINMENT; STEPHEN LEHMANN/US COAST GUARD; FRANK MICELOTTA/FOX

Alma Maters

Where CEOs Are Made

Bloomberg's listing of chief executives' undergraduate alma maters shows which schools produced the most corporate chieftains among S&P 500 companies

#1 University of California



12

William Johnson
H.J. Heinz

#2 School of Hard Knocks



12

Steve Jobs
Apple

#3 Harvard College



11

Steve Ballmer
Microsoft

#4 University of Missouri



11

David Novak
Yum! Brands

#5 University of Texas



11

Gary Kelly
Southwest Airlines

#6 University of Wisconsin



11

Carol Bartz
Yahoo!

#7 Dartmouth College



10

Enrique Salem
Symantec

#8 Princeton



9

Andrea Jung
Avon Products

#9 Indiana University



8

Donald Knauss
Clorox

#10 Purdue University



8

Gregory Wasson
Walgreen

Education

Case Study: How to Build a B-School

- Johns Hopkins is creating an MBA program that plays off its strengths
- "Since we are the new kids ... we're trying to change the mold"

How do you create a business school from scratch? Yash Gupta, dean of the Carey Business School at Johns Hopkins University, is about to find out. The world-renowned research university received a $50 million gift from real estate mogul William Polk Carey in 2006. After three years of curriculum design, fund-raising, and faculty recruiting, the first class for Hopkins' new global MBA program arrives in August.

To distinguish the Carey school, Gupta has created a program focused on entrepreneurship, innovation, and global business. Students will spend winter break tackling a business problem in a developing country. They'll go to the medical school to study research and inventions; in their second year, they're expected to take one to market.

With specializations that include life sciences, energy, and the environment, it's a safe bet the program will not attract aspiring consultants or investment bankers. Gupta doesn't mind: "Since we are the new kids, we don't have to change culture. We're trying to change the mold."

The challenges will be huge. It may be several years before Carey wins accreditation from the Association to Advance Collegiate Schools of Business (AACSB), without which many students won't give it a second look. Faculty at elite B-schools will be in no hurry to defect to a school with no track record and no building (it leases space in a Baltimore office building). Fund-raising and finding jobs for grads will be tough.

Robert Sullivan, who launched the University of California at San Diego's Rady School of Management in 2003, says his toughest tasks included launching an executive education program and raising $110 million for a new building and other expenses "It was really kind of Band-Aids for the first year," he says.

Gupta has recruited 31 full-time faculty members from the University of Pennsylvania's Wharton School, Purdue University's Krannert School of Management, and other schools with the goal of having 90 in five years. The Global MBA program attracted 500 appli-

TOP ROW FROM LEFT: REUTERS/CORBIS; GETTY IMAGES(2); CORBIS; BLOOMBERG; BOTTOM ROW FROM LEFT: BLOOMBERG; GETTY IMAGES(2); BLOOMBERG (2)

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cants for 80 spots, allowing it to enroll a class that is more diverse than most top American B-schools. Half the students arriving in August will carry foreign passports; half will be women.
—*Alison Damast*

The bottom line *The Carey school faces big obstacles, but its innovative focus and the Johns Hopkins reputation may set it apart.*

Sports Marketing

Adidas' Big Money Defense Against Nike

- ▶ With Nike closing in, Adidas hopes sponsorships will preserve its lead
- ▶ Soccer "is, of course, the heart and soul of our company"

A few months after the 2006 World Cup finals in Germany, **Adidas** Chief Executive Officer Herbert Hainer was visiting the Kennedy Space Center in Florida when he received an urgent call on his cell phone. Horst Schmidt, then general secretary of Germany's national soccer federation, told tell Hainer that **Nike** was trying to sign the German national team—an Adidas team since 1954—to an exclusive sponsorship.

Hainer, determined to retain Adidas' role as the world's largest soccer brand, thwarted Nike's angle of attack by doubling sponsorship of the team to 20 million euros ($25.7 million) per year. He didn't stop there. At the World Cup tournament that kicks off on June 11 in South Africa, Adidas will sponsor the entire event and a third of the teams. Explains Hainer: "We have protected our ground fairly well."

It's hallowed ground for global sporting goods makers like Adidas. Soccer, or football for purists outside North America, is the most popular sport on the planet. Sales of soccer products, which hit $10.8 billion in 2008, are expected to surpass that mark this year, notes Renaud Vaschalde, a Paris-based sport industry analyst at market researcher NPD Group.

Adidas spends $125 million a year on sponsorship deals with the FIFA global league and its six top teams, according to German sports marketing consultant SPORT+MARKT. Nike spends $75 million per year for the right to sell the game-related gear of five leading teams. The company, sponsor of 10 teams, hopes to expand the Nike brand's $1.7 billion soccer business. Adidas had soccer sales of about $1.8 billion in 2008 and has to spend big on the World Cup to counter its rival's lead in basketball and running gear, says Christopher Svezia, a sporting goods analyst at Susquehanna Financial Group. "They will fight tooth and nail" to stay tops in soccer, he says.

A run by Germany to the finals could double sales of Adidas match shirts (that go for $88) to 1 million. A strong showing by Nike-sponsored Portugal would help the other guys. "There's certainly a risk, that's the beauty of sport," says Nike brand President Charles D. Denson.

And that's why Adidas signed on as sponsor of the entire tournament—as a hedge. Hainer is defending a heritage that goes back to 1954 when company founder Adi Dassler supplied the first screw-in-stud soccer shoes to the German national team, which went on to win that year's World Cup. "Football is, of course, the heart and soul of our company," Hainer says.
—*Matt Townsend and Holger Elfes*

The bottom line *The heated competition between Adidas and Nike in sales of soccer gear will be played out during the upcoming World Cup championship.*

A Three-Pronged Strategy

Adidas aims to remain the world's largest soccer brand by sponsoring FIFA World Player Messi, a third of the World Cup teams, and the June tournament itself



Airlines

British Air and Its Unions Rumble on the Tarmac



- ▶ With contract talks stalled, cabin workers are planning walkouts
- ▶ "As a hit to profits it's painful, but as a drain on cash it's manageable"

The skies have not been peaceful for **British Airways** lately. Repeated shutdowns of Europe's airspace following the eruption of Iceland's Eyjafjallajökull volcano on Apr. 14 helped send BA's traffic down 22 percent last month. Now Chief Executive Officer Willie Walsh faces an even bigger challenge: restive workers.

The Unite union, which represents BA's cabin crew workers, since March has staged a series of work stoppages over stalled pay talks (picture), crew cutbacks on long-haul flights, and the subsequent elimination of some free

travel benefits. The union raised the ante by calling four walkouts of five days each to begin on May 18.

The latest strikes may cost BA up to 150 million pounds ($223 million), including business lost on the single days between walkouts. That would wipe out most of the $302 million operating profit analysts had been projecting for the fiscal year that began Apr. 1. "As a hit to profits it's painful, but as a drain on cash it's manageable," says Douglas McNeill at Charles Stanley Securities in London.

While BA's $2.36 billion cash cushion will help, the airline is still recovering from the estimated $147 million in business lost due to the volcanic dust disruption. The global recession has so depressed overall demand for air travel that Chief Financial Officer Keith Williams believes BA's pretax loss could hit a record $886 million for the year ended Mar. 31.

That's why Walsh is fixated on reducing costs at Europe's third-largest airline. He cut cabin crew staffing levels in November without union approval in an effort to save $187 million. So far he has hung tough in ongoing contract negotiations over pay.

BA, in a statement, said it is "saddened but not surprised" by the new strike call, and that it planned to continue flying throughout the walkouts.

One advantage for Walsh: The British Airline Pilots' Assn. says it will work normal hours through any strike. The pilots union last year reached a deal with BA that it says gives the airline annual savings of $36.9 million.

Still, BA says it will have to lease planes and crews from other carriers to maintain a reduced schedule during strikes and may have to rebook thousands of customers onto other airlines.

That could be expensive for both sides of the dispute. "I very much doubt that Unite can stage a successful strike of this duration," McNeill said. "Asking cabin crew to forfeit a month of wages seems to me to be a big ask."

Meanwhile, BA risks losing customers just as business travel is starting to pick up. Walsh must balance that possibility against his desire to get a permanent handle on costs. B

—Steve Rothwell

The bottom line *British Air and its cabin crews are engaged in an expensive game of chicken, which could have a long-term impact on its costs.*

BRITISH AIR: LEON NEAL/AFP/GETTY IMAGES; THIS PAGE, CLOCKWISE FROM TOP: SANDY HUFFAKER/BLOOMBERG; JB REED/ BLOOMBERG; DANIEL ACKER/BLOOMBERG; CHRIS COOPER-SMITH/ALAMY

In brief



A lab technician for Pathway Genomics in San Diego tests DNA samples

Walgreen's
Off-the-Shelf Gene Testing is Here
On May 14, Walgreen's became the first national U.S. drugstore chain store to sell gene test kits that promise to deliver information about a person's risk for developing diseases like Alzheimer's and cystic fibrosis and for passing medical conditions on to their children. For $30, buyers receive a plastic vial and a shipping envelope to mail their spit sample to the test's manufacturer, San Diego-based Pathway Genomics. Consumers then pay another $79 to $249 for a detailed gene assessment. At least two other U.S. companies now market gene tests on the Internet, but Pathway Genomics is hoping a retail presence will entice more customers to try them. FDA officials are troubled by the prospect of people making serious life decisions, such as aborting babies, based on the results of such tests, none of which have been approved by the agency.

General Motors
Looking to Rev Up Sales with Credit
General Motors wants back into the auto-loan business. According to people familiar with the company's plans, GM is pondering whether to buy back a piece of its former financing unit, GMAC, create a new credit unit of its own, or form a partnership with other lenders. The auto giant wants to be in a position to provide in-house financing to its dealers again so it can pump up sales ahead of an initial public offering.

Blockbuster
This Film May Have An Unhappy Ending
Prices for Blockbuster's bonds indicate that investors are betting against the survival of the video-rental chain. Over the last three months the company's senior debt has traded at 60.5¢ to 76¢ on the dollar. At those prices, analysts say, the demise of the 21-year-old chain is imminent and inevitable. Dallas-based Blockbuster says it can restructure its way back to health. In an effort to fend off competition from Netflix and Coinstar's RedBox kiosks, the company introduced mail-order service, partnered with NCR to open 10,000 kiosks, and closed 374 U.S. outlets. Yet investors are not convinced that there is room for a Blockbuster's in a digital world.

Royal Bank of Scotland
Cutting a Banking Giant Down to Size
Royal Bank of Scotland Group, recipient of the world's biggest bank bailout, plans to cut 2,600 jobs at its insurance and consumer banking divisions, according to a person privy to the discussions. In exchange for receiving government assistance, the European Union is forcing the bank to sell its Direct Line and Churchill insurance units, along with 300 bank branches. RBS has eliminated 26,000 jobs since 2008, or 12 percent of its staff. It is the only U.K. bank that did not post a profit in the first quarter.

Berkshire Hathaway
Business is on the Mend in Omaha
On May 7, Warren Buffett's sprawling conglomerate reported revenues of $32 billion for the first quarter, a 41 percent jump from the same period last year and the highest quarterly figure since 2007. A recovery in sales of diamonds, luxury flights, and recreational vehicles led the way. Burlington Northern Santa Fe, the railroad Buffett acquired in February for $27 billion in what was his biggest deal ever, added $2.1 billion to revenues. Profit for the quarter was $3.6 billion, compared with a $1.5 billion loss a year ago.



GlaxoSmithKline
Compensation for Diabetes Drug Users
GlaxoSmithKline agreed to pay about $60 million to settle 700 out of roughly 4,000 lawsuits over its Avandia diabetes drug, people familiar with the accords said. That works out to about $86,000 in compensation per case, which is substantially less than the $500,000 per case one analyst had forecast. Glaxo will face its first U.S. trial over Avandia, which allegedly has caused heart attacks and strokes in some users, this July.



Yahoo!
One Big Crack in the Glass Ceiling
Carol Bartz made headlines when she was appointed chief executive officer of struggling Yahoo! in January 2009. According to a recent regulatory filing from the company, Bartz's singular status as one of the few women to lead a major U.S. tech firm is matched by a singularly large paycheck. The former Autodesk chief last year received a total compensation package of $47.2 million, including stock awards worth $13 million and stock-options worth $29.2 million. Bratz's predecessor at Yahoo, co-founder Jerry Yang, knocked his own salary down to a token $1.

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Was Mervyn King the real kingmaker? 26 Hedge funds stay off the leash 27 K Street's new ATM 28 The banker with Obama's ear 29 Honey, I shrunk town hall 30
Edited by Paula Dwyer

Politics&Policy

$145

Billion
The tab to the taxpayer since the government put the pair in conservatorship, in which the government acts as owner and operator, in 2008

$389

Billion
The amount that the Congressional Budget Office estimates subsidizing Fannie and Freddie will have cost taxpayers between 2009 and 2019.

Rethinking Fannie and Freddie

▶ Without overhauling the mortgage giants, reform is unlikely

▶ It's "like declaring war on terror and ignoring Al-Qaeda"

When the history books are written about America's early 21st Century financial system breakdown, what will they make of **Fannie Mae** and **Freddie Mac**? These two government-sponsored enterprises (GSEs) that own or guarantee 76 percent of all mortgage originations were at the center of the credit market collapse. Bailing them out has cost the U.S. taxpayer $145 billion and counting.

Yet while Wall Street executives, credit rating agency managers, and Bush-era regulators have been hauled into the public square, comparatively little time has been devoted to repairing these two entities, which have been in conservatorship for 20 months. With little public discussion, Uncle Sam has basically nationalized their $5.5 trillion in home-loan assets. The Obama Administration has pledged to cover unlimited losses at Fannie and Freddie through 2012, a commitment that goes beyond a prior credit line of $400 billion (which itself had been doubled). In early May, Fannie posted a $13.1 billion loss while Freddie fessed up to losing $6.7 billion. The pair now tote $340 billion in nonperforming assets.

More disturbing than the sheer costs involved is the lack of discussion of how best to fix, privatize, or even phase out these giants. Congress is busily trying to overhaul other sectors of the U.S. financial system, namely large commercial banks, the securitization industry, and derivatives trading. Yet it's hard to see how any fix would be comprehensive without reform of Fannie and Freddie, two institutions so central to U.S. home finance. It's "like declaring war on terror and ignoring Al-Qaeda," said Senator John McCain. On May 11 the Arizona Republican tried unsuccessfully to phase out the companies' taxpayer lifeline as part of the regulation reform bill.

Instead, the Senate settled for exhorting the Treasury Dept. to study how to wean Fannie and Freddie off the dole.

Too bad, because there is an illuminating policy debate to be had about these two government-hatched siblings. Theirs is a tale of industrial policy run amok—enabled by creative accounting, circular financing, a lack of transparency, and Washington's penchant for marrying politics with sociology. Fannie and Freddie were originally created to buy mortgages from local banks so the banks could lend again. Successive administrations used them to achieve various goals, including expanding low-income housing and minority homeownership. At the same time, the companies grew rapidly and became highly profitable. Their implicit government guarantee allowed them to tap the credit markets whenever they wanted, and at favorable interest rates.

In the early 2000s, when rivals stole market share by packaging the subprime mortgages that Fannie and Freddie at first eschewed, the companies switched course and bought hundreds of billions' worth of the risky loans. That, and ill-timed accounting scandals, were their undoing. "Fannie and Freddie are the poster children of the moral hazards of government guarantees—even implicit ones," says Craig Pirrong, professor of risk management at the University of Houston.

Now the Treasury Dept. is again using Fannie and Freddie as tools of social policy by requiring them to spearhead loan-modification programs for distressed homeowners. They are single-handedly keeping the nation's mortgage machine going as the only ones buying and securitizing home loans from originating lenders. Without Fannie and Freddie, it would be nearly impossible to buy or sell a home today. Meanwhile, they must pay billions in dividends to Treasury (which, to complete the loop, is funding them) as part of their conservatorship.



Not that anything approaching the true carrying cost of all that red ink is appearing on the government's balance sheet. Only the draw-down of the now-unlimited taxpayer backstop hits the government's books. This is a great deal for Washington, which gets to control the $5.5 trillion mortgage-finance market for a mere $20 billion or so a quarter. The real-time, mark-to-market losses are kept out of Administration talking points on the cost of the bailout. As recently as Apr. 23, Treasury Secretary Timothy Geithner told Congress that rescue programs will tally only about $87 billion, including Fannie, Freddie, and the Troubled Asset Relief Program.

The Congressional Budget Office, which isn't authorized by Congress to undertake a full accounting of Fannie's and Freddie's finances, figures that keeping the pair afloat will cost taxpayers $389 billion between 2009 and 2019, even more than **American International Group**'s bill. "This is the pushing-under-the-table of those losses," says Robert Pozen, the chairman of Boston-based fund shop MFS Investment Management who led a committee to improve financial reporting for the Securities & Exchange Commission in 2007.

Geithner has so far told Congress that Fannie and Freddie "will not exist in the same form as they did in the past." There is, however, no timetable for reform. In the interim, the housing-finance giants remain in limbo: They can't continue as they are, and the fragile economy can't function without them. "Washington has essentially nationalized mortgage credit," laments Doug Noland, senior portfolio manager of the Federated Prudent Bear Fund and a longtime critic of the GSEs. "It's difficult to see how the private sector can now go alone without government guarantees."

There is a reason why Fannie and Freddie have only grown in scope. No matter which political party has been in control: They exist outside the checks and balances taught in seventh-grade civics class. "They are now being used as a conduit for the executive branch to spend money for policy purposes without having to get a vote and without transparency," says Phillip Swagel, a Treasury economist under President George W. Bush who now lectures on financial crises at Georgetown University's McDonough School of Business.

Taking on Fannie and Freddie involves taking on the very notion of home ownership for everyone. However flawed an aspiration that may have proven to be, it's still one that remains sacrosanct in Washington.
—*Roben Farzad*

***The bottom line** As Congress fixes flaws in the financial system, no serious fix for Fannie Mae and Freddie Mac is under serious consideration*

U.K. Election

The Bank of England's Kingmaker



► A central banker's dire deficit warnings became an election issue

► "We are still halfway through the world's worst financial crisis"

Central bankers typically go to great lengths to stay above the political fray. When an election cycle coincides with a full-blown fiscal crisis like Great Britain's, that's not always an easy task. Such is the predicament of Bank of England Governor Mervyn King, a fiscal hawk who has issued dire warnings about his country's profligate spending.

In the just-completed U.K. election, King courted political controversy by

KING: CHRIS RATCLIFFE/BLOOMBERG; ILLUSTRATION BY LEIF PARSONS; CHART DATA: FEDERAL HOUSING FINANCE AGENCY

urging then-Prime Minister Gordon Brown's government earlier this year to show more spending restraint in the face of the country's gargantuan budget deficit, now clocking at about 12% of gross domestic product. He warned in February that the U.K.'s top credit rating was "ours to lose," and said financial markets "want a clear and strong signal" that the government can manage the deficit.

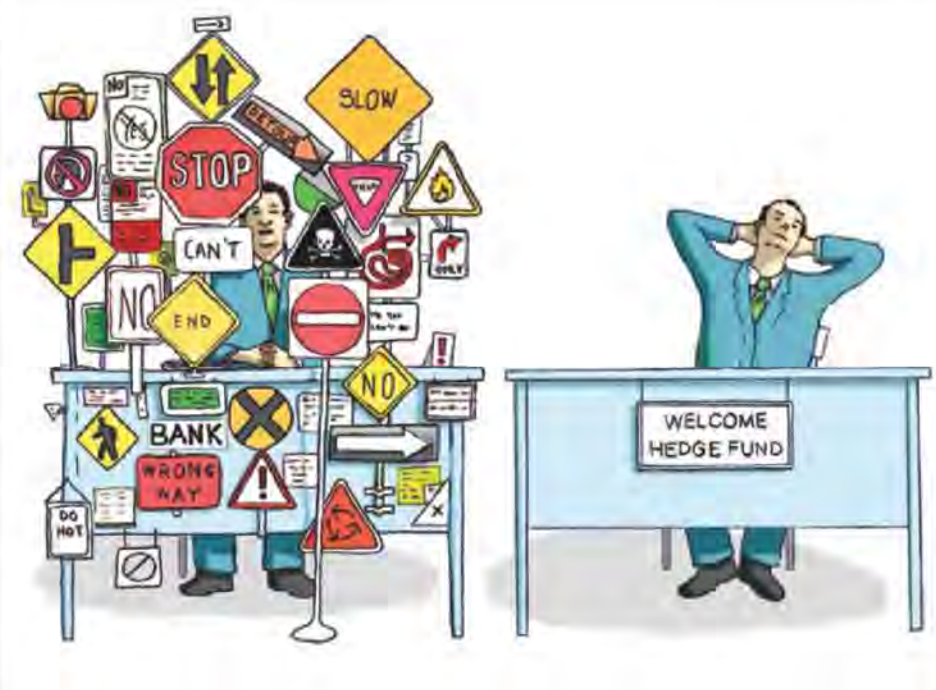
Whether he intended to or not, King became the subject of a sparring match in Parliament before the elections when Conservative leader David Cameron used King's views on the budget to slam Brown's handling of the economy. Now Cameron, not Brown, resides as Prime Minister at 10 Downing Street, thanks to an accord reached by his Conservative Party and the Liberal Democrats.

At a postelection press conference on May 12, King said that while he tried to intervene "as little as possible" before the election, it was appropriate to comment on the budget shortfall. "We are still halfway through the world's worst financial crisis ever," he said. "It is important for the central bank to comment on the measures to deal with the fiscal deficit that will certainly color monetary policy for a long time to come." He said Greece's fiscal mess shows what can happen when budgets run out of control.

King says he welcomes Cameron's plans to trim the U.K.'s budget deficit, which Conservative officials have indicated will involve 6 billion pounds ($9 billion) of cuts this fiscal year. "The agreement I have been informed about that was reached between Conservatives and Liberal Democrats is a very strong and powerful agreement," King said in London after unveiling quarterly economic forecasts.

The central bank predicted the economy will sustain its pickup and reach an annual growth pace of about 3.5 percent by the beginning of 2012. Inflation is likely to remain below the 2 percent target. Mopping up after the fiscal mess will be a multiyear affair. And if the new government loses its nerve in cutting spending, it can probably count on King to issue a public scolding or two to get everyone's attention. *—Jennifer Ryan and Svenja O'Donnell*

The bottom line *King will continue to maintain a balance between calling for fiscal restraint and appearing to meddle in this new era of British politics*



Financial Regulation

The Charmed Life of Hedge Funds

- As banks get a tighter leash, funds may remain lightly regulated
- "We were the pure capitalists," says fund manager James Chanos

There's one corner of Wall Street that is happily backing Congress's regulatory overhaul of the U.S. financial system: the $1.7 trillion hedge fund industry.

The private investment pools have been largely silent during this year's legislative imbroglio, confident that the regulatory proposal that directly affects them—a requirement to register with the Securities & Exchange Commission—won't crimp their business. Backed by well-connected lobbyists, including Richard Baker, a former senior Republican on the House Financial Services Committee, hedge funds have thus far dodged the Washington reform bullet.

Their pitch to lawmakers goes like this: Not a single hedge fund took government aid during the financial industry bailout. Nor were any funds implicated in the various scandals that made this credit crisis so unnerving. "Unlike almost all the other actors on the stage of financial regulation in Washington, we were the pure capitalists," says James Chanos, president of **Kynikos Associates**, a short-selling hedge fund in New York. "If we made bad decisions, we lost money and suffered the consequences."

Chanos supports hedge fund registration, which would give the SEC the ability to inspect the firms' books and require them to disclose more information. More regulation than that isn't needed, he argues, because hedge funds don't receive the taxpayer support that banks do.

Still, there is a growing concern that by ignoring hedge funds, and to a lesser degree private equity and venture capital firms, which are also largely unregulated, Congress may be setting a path for the next economic disaster.

"You're talking about an industry that manages trillions of dollars of wealth, and to leave them in the dark while we create a 21st century regulatory framework for the banks would be a huge mistake," says Dan Pedrotty, director of the AFL-CIO's investment office that advises union pension funds with more than $500 billion in assets. "There needs to be a level playing field here so money doesn't flow to the unregulated parts of Wall Street."

House Minority Leader John Boehner (R-Ohio) has highlight-

Big ships go green page 35 ►



$1.7 Trillion

Assets under management by hedge funds

ed the loophole to show how loosely regulated hedge funds would be compared with what he calls the "massive new regulatory structure being imposed on other financial firms."

The tightening of regulations on banks could usher in a new era of profitability for hedge funds, pushing money and trading talent their way. One example that is gaining attention: Senators are about to give final consideration to the so-called Volcker Rule, named after its proponent, former Federal Reserve Chairman Paul Volcker, that would bar commercial banks from so-called proprietary trading–that is, solely for their own accounts. If it passes–and a similar version is adopted by the House, which approved its financial overhaul legislation in December–star traders in search of better bonuses may flock to hedge funds. The Volcker Rule would also prohibit banks from owning hedge funds.

The tougher leverage limits and capital requirements now envisioned for banks could make it harder for them to compete against hedge funds' higher returns. A third proposal, to separate derivatives trading from commercial banking, is opposed by the Treasury Dept. because it worries that more trading in the complex securities would gravitate to–you guessed it–hedge funds.

Big banks are fighting the derivatives rule and Volcker plans and could yet defeat them on the Senate floor. So far, though, few lawmakers are offering to help. As public outrage against Wall Street runs high, no politician in an election year wants to be seen as soft on banks.

The Obama Administration is comfortable with the current proposals for hedge funds. Requiring funds to register with the SEC will give regulators a window onto the funds' opaque operations, a big improvement over the status quo, the White House reasons. If a hedge fund grows too large, it would also face stepped-up oversight by the Federal Reserve under the proposed reform legislation.

One issue that may be debated on the Senate floor in coming days is whether private equity and venture capital firms should get the same treatment as hedge funds. Senator Jack Reed (D-R.I.) intends to try to end that disparity. Not everything is going the industry's way. Hedge fund and private-equity managers remain in the cross hairs as Congress gets ready to again take up the issue of raising taxes on their personal income. *—Robert Schmidt*

The bottom line *If hedge funds get light regulatory treatment from Congress they will end up with a huge competitive advantage over commercial banks*

Lobbying

An Internet Struggle With Bandwidth Aplenty



► **Why the net neutrality debate could drag on for years**

► **Congress has no reason to swiftly resolve a "fund-raising gusher"**

The fight over regulating the Internet has become the engine for a perpetual Washington fund-raising machine. By definition, this means the battle won't end anytime soon.

On May 6, Julius Genachowski, chairman of the Federal Communications Commission, announced that his agency would move toward crafting new restrictions on high-speed service providers such as **Comcast, AT&T,** and **Verizon.** As he sees it, the FCC is defending the status quo of a free and open Net. Preserving what fans call "net neutrality" would mean barring service providers from favoring their own online offerings and those of business partners. It would also mean stopping the providers from slowing or blocking content from rivals like **Google's** YouTube video empire.

Rather than settling the issue, though, Genachowski's move may guarantee years of jockeying in all three branches of government. Among the K Street law and lobbying firms, it means plenty of lucrative paydays ahead.

Victor E. Schwartz, who chairs the Washington policy group at Shook, Hardy & Bacon, has seen this drill before. "You have a Washington game with certain perennial issues important to business," he says. "They come back again and again. Why? They're fund-raising gushers." Members of Congress see little reason to resolve the clash quickly, so long as conflicting interests fill their campaign coffers.

Schwartz served as an industry field general in a 20-year war against the plaintiffs' bar over product liability restrictions. That scorched-earth exercise in the courts and Congress finally burned out in 2005. Business interests won selected litigation curbs, including limits on state court class actions and securities suits. Total victory–broad federal "tort reform"–eluded Schwartz and his allies.

Net regulation could be the new product liability. The FCC announcement "is likely to set off a politically charged conflagration and deep-pocketed lobbying war," pitting the digital service providers against Google, **Amazon,** and others that want their content disseminated free of special charges or limitations, says Jeffrey Silva, a Washington-based analyst with Medley Global Advisors.

Genachowski, 47, a Harvard Law School classmate of President Barack Obama, began fleshing out his vision for the broadband future by claiming authority to regulate the Net under statutory provisions long applied to phone companies. His May 6 declaration was an attempt to salvage an ambitious agenda from a potentially crippling ruling in April by a federal appeals court in Washington. The court had said the FCC lacks authority under a different set of provisions governing "information services." The high-speed providers that favored the court decision will almost certainly steer the dispute back to the judicial branch while simultaneously seeking aid in Congress.

As occurred in the product liability hostilities, the Internet struggle is breaking down along partisan lines. Republicans sided with business on litigation curbs; Democrats linked arms with plaintiffs' lawyers and consumer groups.

ILLUSTRATION BY LEIF PARSONS, OPPOSITE, FROM LEFT: ZUMA PRESS; BLOOMBERG



Quoted

"I think he [Obama] has done a great job. I think he's working hard to try to figure out a solution here."
◄ **Brian Moynihan**, Bank of America CEO, in an Apr. 30 interview with Fox Business Network. Moynihan has met three times with Valerie Jarrett, President Obama's corporate liaison.

"Using tax policy to punish people is a bad idea."
► **Jamie Dimon**, Citigroup CEO, reacting to the President's January plan to tax recipients of bailout funds. Dimon earlier warned of the "pendulum swinging too far" after reviewing Obama's proposals to overhaul financial regulation.



Today, the GOP has signaled its eagerness to back the service providers. Representative John Boehner (R-Ohio), the House Republican leader, calls the FCC net neutrality plan "a government takeover of the Internet," words echoed by conservative groups led by Americans for Tax Reform. Consumer advocates and Democrats such as Representative Edward J. Markey (D-Mass.) back the FCC.

Among major companies favoring the FCC's net neutrality initiative, Google boosted spending on lobbying in the first three months of 2010 by 59 percent, to $1.4 million, compared with the same period a year earlier. Amazon's lobbying expenditures rose 46 percent, to $540,000. AT&T, which has told the FCC that net neutrality rules could discourage important investment in digital infrastructure, has also increased lobbying. It spent $5.9 million through Mar. 31, up 16 percent. Comcast boosted its spending 11 percent, to $3.1 million.

All that money points to a protracted slog with an uncertain ending. One thing is for sure: Prospects are brightening for the capital's influence-peddling elite. *—Paul M. Barrett, Todd Shields, and Jonathan D. Salant*

The bottom line *A quick fix in the net neutrality debate looks unlikely if the issue becomes a proxy battle for larger Democratic and GOP agendas.*

Finance

For the White House, A New Banker Buddy

- **Brian Moynihan is embracing reforms most of the Street opposes**
- **The BofA boss is "willing to come to Washington and roll up his sleeves"**

The White House has found a banker it can do business with. While other bank chiefs fight President Barack Obama's plan to fix financial regulation, either openly or through trade groups, **Bank of America** boss Brian Moynihan embraces it. He has called for a consumer financial protection agency, quickly addressed problems with BofA's home-loan modification program, and pursued small-business initiatives with the White House. "He has been willing to speak out bravely in his industry on the need for reform," says Valerie Jarrett, the White House liaison to Corporate America, who has met with Moynihan three times. "And he has been willing to come to Washington and roll up his sleeves to work on the issue." Since becoming Bank of America's CEO on Jan. 1, Moynihan has also visited top Administration officials including Treasury Secretary Timothy Geithner and economic adviser Lawrence Summers

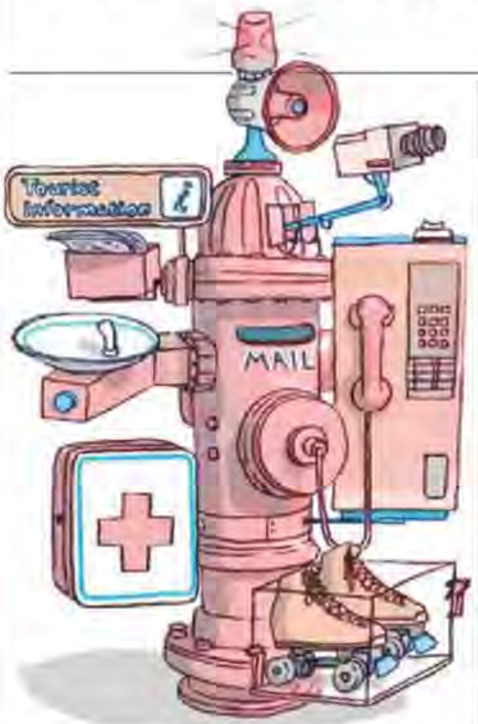
Moynihan's rise comes as **JPMorgan Chase** Chief Executive Officer Jamie Dimon gets more combative about reform. A frequent entry in the West Wing visitors' log, Dimon has adopted a chilly tone toward regulatory overhaul. Last year, after Obama previewed his reform proposal, Dimon warned in a *Wall Street Journal* op-ed of the "pendulum swinging too far."

Jarrett dismisses the idea that the White House favors one banker over the other. "This isn't about relationships, it's about issues," she says. Anne Finucane, BofA's chief marketing officer, cautions that Moynihan isn't on board with every Obama proposal. The bank, for instance, still wants any financial overhaul to supersede tougher state laws. She says the cooperative attitude makes business sense for the head of the largest U.S. bank. "The industry has experienced a low moment in its reputation," she says. "And we are very anxious to get back to business with our clients and customers." *–Julianna Goldman and Hans Nichols*

The bottom line *As the White House tries to tighten the reins on Wall Street, BofA's Moynihan has become an ally.*

James Warren

When Counties Don't Stop Governing at the Border



To compete for funding–and save their budgets–municipalities are doing the unthinkable: Working together

Illinois has more government bodies (8,469) than licensed beauty salons and barber shops (6,485), funeral directors and embalmers (2,752), or dental hygienists (7,455). It will not shock you to hear that many of these agencies don't play well together. There are 380 separate units responsible for the Chicago region's transportation. Still, it takes more than a dozen fare cards to ride everywhere in the Chicago area.

Confidence in rational government has never been lower, which makes the anomalies even more important–like the real collaboration among the Chicago-area municipalities of Joliet, Berwyn, Aurora, Cicero, and Elgin. A strategy borne of necessity brought them together. When the foreclosure crisis hit, the area's 800-pound gorilla, the City of Chicago, was first in line for stimulus funds to acquire, rehab, and sell some of its 22,685 foreclosures. Surrounding towns in five counties were hit far worse, enduring 41,321 foreclosures in 2009. A few large towns received federal help early last year via formula grants calibrated to reward populous areas. As individual entities, they lacked the staffing, expertise, and influence to pull off complex funding applications.

When $2 billion in new stimulus funds became available in 2009, the counties decided to team up. It meant getting help from savvy nonprofit groups and more efficient decision-making; not relying on local councils for approval of every component of the application. It also required sacrifice. Some towns were angered by the decision to accede to the federal desire to target homes near existing mass transit and businesses, effectively excluding towns without transport hubs. Still, the coalition stuck together for the greater good and sent off its application.

The nexus of transport and housing–putting affordable housing near mass-transit helps ensure people can get to jobs–inspires the most imaginative gambits among U.S. municipalities. (It's also a priority for the Obama Administration, which has urged the Environmental Protection Agency, Transportation Dept., and Housing & Urban Development Dept. to work together more closely.) Outside Seattle, the 17-year-old A Regional Coalition for Housing (ARCH) pools the financial resources of 14 cities and King County to coordinate affordable housing projects near mass transit, important given pricey housing and rising employment in an area that includes Microsoft, in Redmond. Seven members are providing $1.5 million for a planned 40-unit development in Bellevue for poor families, the homeless, and veterans. "The cities realize that housing needs are not just aligned with their borders," says program director Arthur J. Sullivan of ARCH.

Groups like Chicago's Metropolitan Planning Council and the Partnership for New York City hope to imitate the success of ARCH and San Francisco's Great Communities Collaborative–a partnership among five regional groups that fashions neighborhoods where housing melds with job creation and transit. Funded by the Ford foundation and 11 others, GCC gets cities to work together as it lends money to developers. It's now leveraging $10 million in federal transportation funds to raise at least $30 million more for affordable housing acquisitions, says Initiative Officer Heather Hood.

Allegheny County, Pa., is one of the few places to experiment beyond housing. Realizing that borders between its 130 municipalities, 109 police departments, and 195 fire departments weren't helping the area's 1.2 million people, the county merged operations with its biggest player, Pittsburgh. Now fingerprinting of law enforcement and the purchasing of electricity are done singly, with a net savings of $10 million. Allegheny has also set aside $100,000 for a fund to promote shared services. If two towns want to merge police forces, the fund will pay to repaint cars or help secure a new headquarters. A private firm specializing in conflict resolution will mediate particularly contentious discussions at no cost.

These are small sums, and some elected officials are loath to cede authority. Collaboration isn't a guarantee of success, either. For all their effort, the Chicago suburbs still got shut out in the quest for federal stimulus funds. (Chicago filed separately and got $98 million; Mayor Richard M. Daley has vision, too–and a very effective Washington lobbyist.) Lee Deuben, the senior planner for the Chicago Metropolitan Agency for Planning, wrote the suburban foreclosure proposal. He's disappointed, and not the least bit bowed. "While we didn't receive the funding," says Deuben, "we're highly encouraged that this type of regional coordination will become common practice." Ⓑ



"I was originally too embarrassed to have 'the talk' with my doctor, but now I wish I'd done it sooner."

Your Doctor Talks to Men About ED Every Day

Your doctor will tell you that erectile dysfunction (ED) isn't something to keep to yourself, or to be embarrassed about. It's a common medical condition he can treat.


Doctor portray

Running the Numbers

Did you know half of all guys over 40 have some form of ED? Here are some numbers to keep in mind from a recent survey of men with ED:

71% of men were anxious about talking to their doctor about ED.

89% of men felt relieved after talking to their doctor.

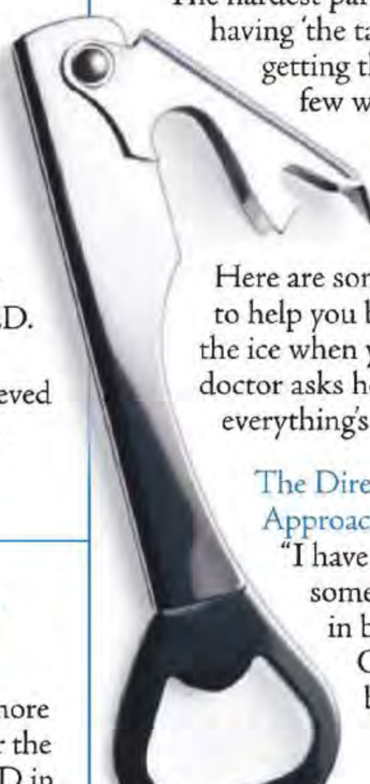


Tell Me More

To learn more about VIAGRA for the treatment of ED, and ED in general, visit **viagra.com** today. You'll find an online sexual health quiz, videos of guys with ED who've had the VIAGRA Talk and other helpful information.

Over 20 million men have already had their VIAGRA Talk. Isn't it time you had yours?

Don't Keep Your Questions Bottled Up



The hardest part about having 'the talk' is getting those first few words out.

Here are some ideas to help you break the ice when your doctor asks how everything's going:

The Direct Approach:
"I have trouble sometimes in bed. Could it be ED?"

The Indirect Approach:
"Is it true age affects sexual performance?"

The Silent Approach:
Just hand this ad to your doctor, he'll take it from there.

Important Safety Information

We know that no medicine is for everyone. Don't take VIAGRA if you take nitrates, often prescribed for chest pain, as this may cause a sudden unsafe drop in blood pressure.

Talk with your doctor first. Make sure your heart is healthy enough to have sex. If you have chest pain, nausea, or other discomforts during sex, seek medical help right away.

In the rare event of an erection lasting more than four hours, seek immediate medical help to avoid long-term injury.

In rare instances, men who take PDE5 inhibitors (oral erectile dysfunction medicines, including VIAGRA) reported a sudden decrease or loss of vision, or sudden decrease or loss of hearing. It is not possible to determine whether these events are related directly to these medicines or to other factors. If you experience any of these symptoms, stop taking PDE5 inhibitors, including VIAGRA, and call a doctor right away.

The most common side effects of VIAGRA are headache, facial flushing, and upset stomach. Less common are bluish or blurred vision, or being sensitive to light. These may occur for a brief time.

VIAGRA does not protect against sexually transmitted diseases including HIV.

Please see Important Facts for VIAGRA on the following page or visit viagra.com for full prescribing information.

For free information, including questions to ask your doctor, call 1-888-4VIAGRA (1-888-484-2472).

VIAGRA®
(sildenafil citrate) tablets

You are encouraged to report negative side effects of prescription drugs to the FDA. Visit www.FDA.gov/medwatch or call 1-800-FDA-1088.

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Pfizer

IMPORTANT FACTS

VIAGRA® *(sildenafil citrate) tablets* (vi-AG-rah)

IMPORTANT SAFETY INFORMATION ABOUT VIAGRA

Never take VIAGRA if you take any medicines with nitrates. This includes nitroglycerin. Your blood pressure could drop quickly. It could fall to an unsafe or life-threatening level.

ABOUT ERECTILE DYSFUNCTION (ED)

Erectile dysfunction means a man cannot get or keep an erection. Health problems, injury, or side effects of drugs may cause ED. The cause may not be known.

ABOUT VIAGRA

VIAGRA is used to treat ED in men. When you want to have sex, VIAGRA can help you get and keep an erection when you are sexually excited. You cannot get an erection just by taking the pill. Only your doctor can prescribe VIAGRA.

VIAGRA does not cure ED.

VIAGRA does not protect you or your partner from STDs (sexually transmitted diseases) or HIV. You will need to use a condom.

VIAGRA is not a hormone or an aphrodisiac.

WHO IS VIAGRA FOR?

Who should take VIAGRA?

Men who have ED and whose heart is healthy enough for sex.

Who should NOT take VIAGRA?

- If you ever take medicines with nitrates:
  - Medicines that treat chest pain (angina), such as nitroglycerin or isosorbide mononitrate or dinitrate
- If you use some street drugs, such as "poppers" (amyl nitrate or nitrite)
- If you are allergic to anything in the VIAGRA tablet

BEFORE YOU START VIAGRA

Tell your doctor if you have or ever had:

- Heart attack, abnormal heartbeats, or stroke
- Heart problems, such as heart failure, chest pain, or aortic valve narrowing
- Low or high blood pressure
- Severe vision loss
- An eye condition called retinitis pigmentosa
- Kidney or liver problems
- Blood problems, such as sickle cell anemia or leukemia
- A deformed penis, Peyronie's disease, or an erection that lasted more than 4 hours
- Stomach ulcers or any kind of bleeding problems

Tell your doctor about all your medicines. Include over-the-counter medicines, vitamins, and herbal products. Tell your doctor if you take or use:

- Medicines called alpha-blockers to treat high blood pressure or prostate problems. Your blood pressure could suddenly get too low. You could get dizzy or faint. Your doctor may start you on a lower dose of VIAGRA.
- Medicines called protease inhibitors for HIV. Your doctor may prescribe a 25 mg dose. Your doctor may limit VIAGRA to 25 mg in a 48-hour period.
- Other methods to cause erections. These include pills, injections, implants, or pumps.
- A medicine called REVATIO. VIAGRA should not be used with REVATIO as REVATIO contains sildenafil, the same medicine found in VIAGRA.

POSSIBLE SIDE EFFECTS OF VIAGRA

Side effects are mostly mild to moderate. They usually go away after a few hours. Some of these are more likely to happen with higher doses.

The most common side effects are:

- Headache
- Feeling flushed
- Upset stomach

Less common side effects are:

- Trouble telling blue and green apart or seeing a blue tinge on things
- Eyes being more sensitive to light
- Blurred vision

Rarely, a small number of men taking VIAGRA have reported these serious events:

- Having an erection that lasts more than 4 hours. If the erection is not treated right away, long-term loss of potency could occur.
- Sudden decrease or loss of sight in one or both eyes. We do not know if these events are caused by VIAGRA and medicines like it or caused by other factors. They may be caused by conditions like high blood pressure or diabetes. If you have sudden vision changes, stop using VIAGRA and all medicines like it. Call your doctor right away.
- Sudden decrease or loss of hearing. We do not know if these events are caused by VIAGRA and medicines like it or caused by other factors. If you have sudden hearing changes, stop using VIAGRA and all medicines like it. Call your doctor right away.
- Heart attack, stroke, irregular heartbeats, and death. We do not know whether these events are caused by VIAGRA or caused by other factors. Most of these happened in men who already had heart problems.

If you have any of these problems, stop VIAGRA. Call your doctor right away.

HOW TO TAKE VIAGRA

Do:

- Take VIAGRA only the way your doctor tells you. VIAGRA comes in 25 mg, 50 mg, and 100 mg tablets. Your doctor will tell you how much to take.
- If you are over 65 or have serious liver or kidney problems, your doctor may start you at the lowest dose (25 mg).
- Take VIAGRA about 1 hour before you want to have sex. VIAGRA starts to work in about 30 minutes when you are sexually excited. VIAGRA lasts up to 4 hours.

Don't:

- Do not take VIAGRA more than once a day.
- Do not take more VIAGRA than your doctor tells you. If you think you need more VIAGRA, talk with your doctor.
- Do not start or stop any other medicines before checking with your doctor.

NEED MORE INFORMATION?

- This is only a summary of important information. Ask your doctor or pharmacist for complete product information OR
- Go to **www.viagra.com or call (888) 4-VIAGRA (484-2472).**

Uninsured? Need help paying for Pfizer medicine? Pfizer has programs that can help. Call **1-866-706-2400** or visit www.PfizerHelpfulAnswers.com.

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Technology



CEO Zuckerberg at an April event, introducing the controversial Facebook features

JUSTIN SULLIVAN/GETTY IMAGES

Facebook's Washington Problem

▶ **The social network is facing a privacy backlash that could prompt congressional hearings**

▶ **"Users should have to choose to share their information, not the other way around"**

Facebook, the ever-expanding social networking site, delights millions of users with its innovative ways to stay in touch. At the same time, the six-year-old online phenomenon continually tests their tolerance for sacrificing privacy. Now it has provoked a new skirmish—this time with members of the U.S. Congress. On May 12 aides to Senator Charles Schumer (D–N.Y.) met in Washington with Elliot Schrage, Facebook's public relations and policy chief, to discuss concerns about the company's privacy policies. Schumer has had talks with colleagues about holding congressional hearings, according to a person familiar with the proceedings.

Senator Mark Begich (D–Alaska) says he's worried about new data-gathering capabilities Facebook has introduced and what he sees as the Web company's arrogance in brushing off questions about its practices. The site has launched a feature that builds restaurant guides and music playlists derived from personal information supplied by users and their Facebook friends. Begich, Schumer, and two colleagues—Al Franken (D–Minn.), and Michael Bennet (D–Colo.)—wrote a letter dated Apr. 27 to Facebook founder and Chief Executive Officer Mark Zuckerberg taking him to task over how this commercially valuable information is being shared with other Web sites and marketers, sometimes without users' consent. In early May, the Alaska lawmaker sent aides to meet with Facebook in D.C. So far, Begich says, nothing has changed. Facebook's inaction, he says, "tells me that we need to elevate this so they understand how important it is."

Since its start in 2004, Facebook has amassed one of the world's richest stores of facts and figures related to consumer behavior. The status updates, product-related musings, friendship connections, and entertainment preferences shared by more than 400 million people worldwide make the site attractive to marketers and Web publishers. Industry analysts say that the new data-gathering features Facebook has initiated could help bring the company more ad dollars. (Privately held Facebook does not disclose financial figures.) "People are now recognizing that Facebook has an economic incentive to encourage people to be more public" about their consumer preferences, says Danah Boyd, a researcher at **Microsoft**, which has invested in the social network.

"There's always a challenge of innovating faster than your users understand or accept"

Zuckerberg, who turns 26 on May 14, promotes a more idealistic image for the organization he started as a Harvard undergraduate. "People have gotten comfortable not only sharing more information and different kinds but more openly and with more people," he

said at an industry event in San Francisco in January.

What Zuckerberg considers encouraging openness can also be seen as asking users to reveal too much. Over the years, this dual nature of Facebook has sparked controversies, such as the one now smoldering on Capitol Hill. In 2007, the company launched Beacon, a program that broadcast user activity within the network and tracked what Facebookers did elsewhere on the Web. Beacon did all of this without asking users' permission. Facebook patrons protested and Zuckerberg publicly apologized. In September 2009 the company shut Beacon down. "We learned from Beacon that there's always a challenge of innovating faster than your users understand or accept," says Facebook's Schrage.

The latest Facebook features are reminiscent of Beacon. In addition to the playlist-and-restaurant-guide technology, Facebook now lets ESPN, Levis, or anyone else install a "like" button on their Web site. Facebook users who visit one of these properties and click "like" may unknowingly identify themselves as fans of a certain brand, letting that company access their personal information. In theory, the sites could then sell that data to advertisers targeting Facebook users. Schrage says no partner currently does so.

If users don't want their information to be shared, they have to sift through their Facebook account settings and click a series of boxes. "Every one of these incidents begins with Facebook sliding the privacy settings" to make disclosure of information easier, says Eben Moglen, a law professor at Columbia.

In their Apr. 27 letter, the four senators urged Zuckerberg to reverse some of the most recent changes to Facebook. "Users should have to choose to share their information, not the other way around," they wrote. The following week, 15 consumer groups filed a complaint with the Federal Trade Commission. On May 12, officials from 30 European countries wrote a letter to Facebook saying it was "unacceptable" for the company to have "fundamentally changed" the site's default settings.

Facebook's Schrage says the most recent changes are all entirely proper. He attributes the backlash to a public relations failure: "We need to do a better job of communicating to all of our users–whether they are senators in Washington or regular people."
—*Douglas MacMillan*

The bottom line *Facebook has a history of pushing the limits on privacy—and backpedaling from the backlash. Expect the same this time.*

Consumer Sentiment, Search-Engine Style



Computing

Tables: The Scramble To Be Second



ILLUSTRATION BY STEPHEN KRONINGER; PHOTOGRAPHS (CLOCKWISE FROM TOP) LISA O'CONNOR/ZUMA PRESS; GETTY IMAGES (3)

- **Samsung and other makers revamp devices after the iPad's debut**
- **"Lots of plans we saw last year have been dumped"**

On stage at the Consumer Electronics Show in Las Vegas in January, **Samsung** executive Doug Albregts showed off the Korean electronics giant's new e-book reader. It had a 10-inch display, a slide-out control pad, and could download books from **Barnes & Noble**. Users would be able to make notes and doodle on the virtual page. "Our goal at Samsung, whenever we enter a new arena, is not simply to join the conversation but to transform and lead in a new direction," Albregts told the audience.

This month, days before the eReader was to hit stores, Samsung delayed the launch and called the device back for retooling, said a company employee who asked not to be named. Samsung may add a color screen, 3G wireless capability, and a better battery, this person says. "Samsung is revisiting its approach to the e-reader market in the U.S.," spokeswoman Katie Seifert said in a statement.

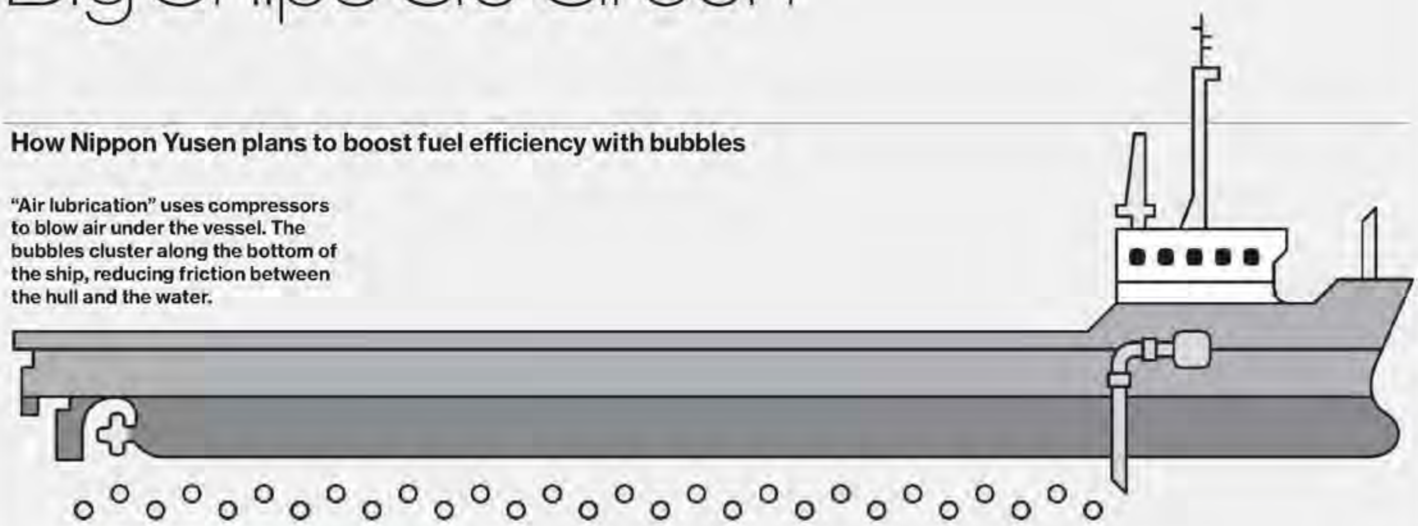
In the wake of the launch of Apple's iPad on Apr. 3, hardware companies are doing a lot of high-tech soul-searching about the tablets they have in the pipeline. Along with Samsung,

Deconstructed

Big Ships Go Green

How Nippon Yusen plans to boost fuel efficiency with bubbles

"Air lubrication" uses compressors to blow air under the vessel. The bubbles cluster along the bottom of the ship, reducing friction between the hull and the water.





NYK Super Eco Ship 2030
This concept carrier vessel is powered primarily by fuel cells running on liquefied natural gas. It will also be equipped with eight retractable sails. Sheathed in 31,000 square meters of solar panels, the ship will chart its course for maximum exposure to the sun.

The cargo ships that ply the world's oceans are a leading contributor to global warming. Commercial vessels emitted 3 percent of the world's carbon in 2007, and that may increase to 18 percent by 2050 as global trade increases. U.N. measures to halve carbon emissions from shipping could come into force as soon as 2012, so the industry is scrambling to clean up its act. "The marine industry is gearing up for the biggest revolution since World War II," says Lee Sokje, an analyst at Mirae Asset Securities in Seoul. "You're either ahead of the game or you're out."

Nippon Yusen, owner of the world's second-largest fleet, is sinking $743 million into emissions control over five years. Among other things, the Tokyo-based company has been testing what it calls an "air lubrication" system that reduces CO_2 by approximately 10 percent and is considering putting it to work on new ships. Says Nippon Yusen President Yasumi Kudo: "We're discussing ordering one or two eco car carriers by the end of this year."

In time, Nippon Yusen hopes to combine an air lubrication system with others that harness solar and wind power to achieve carbon reductions of as much as 69 percent. Its Web site features computer renderings of a concept vessel christened the NYK Super Eco Ship 2030 (left) that is covered with solar panels and is outfitted with retractable sails. "Not a joke. Not a toy. Not only a dream," proclaims the text accompanying the images.

Rivals, meanwhile, are exploring other routes to fuel efficiency. China Cosco Holdings is considering bringing back nuclear-powered cargo ships, introduced in the early 1960s. "We're not only looking into nuclear but also wind energy and solar energy," says Zhang Liang, president of China Cosco. Analysts warn that the cost of deploying some alternative energy technologies are prohibitive. "Ship prices are going to go through the roof if any of these ships using renewable energy are built," says Mirae's Lee. —*Kyunghee Park*

Hewlett-Packard, **Dell**, and **AsusTek** are reassessing the tablet market. Much is at stake in getting it right. Although tablets are projected to make up only 1 percent of computer sales this year, that could rise to nearly 25 percent by 2015, according to Coda Research Consultancy. "Everyone expected the iPad to come out at twice the price with half the battery life and half the performance," says Jeff McNaught, an executive at **Wyse Technology**, a maker of software that lets people view their Windows desktop from an iPad or other devices. "Lots of plans we saw last year have now been dumped. Nobody has called to say products have been scrapped, but they've gone silent since the iPad shipped."

Hewlett-Packard presented a Windows-powered tablet called Slate at CES in January and wrote about it on its Web site. The company hasn't promoted the device since early April. A few weeks later, it bought **Palm**, the struggling handheld maker known for its easy-to-use software, for $1.2 billion. HP won't comment on the status of the Slate, and many analysts believe HP will now design a tablet using Palm's software. If HP "does a consumer tablet, it would clearly be based on the Palm [operating system], not Windows," says analyst Tim Bajarin, of Creative Strategies, a consultancy. He said Windows software was not adequate for touchscreen technology as sophisticated as the iPad's. "The vast majority of customers want a PC that can do it all," says **Microsoft** spokesman Bill Cox.

Dell will introduce a 5-inch tablet using **Google's** Android operating system in June. It is in the process of redesigning follow-on devices to deliver larger screens and new software by early next year, says Neeraj Choubey, director and general manager of Dell's tablet group. Jerry Shen, CEO of Taiwanese PC maker AsusTeK, says his company is accelerating its development of an Android-based tablet. The company still will sell a Windows version. One advantage of Android, developed by Google, is that it runs about 40,000 applications, over 30 times more than Windows' 1,200 mobile apps. **Verizon Wire-**

Technology

An expensive shoe purchase page 47 ▶



less says it is in talks with Google about creating a tablet.

Apple's rivals may have trouble coming up with an iPad-beater. Apple chose every part in the iPad to conserve power. The company used a specially designed battery, as well as custom-made microprocessors. With other products, it has often turned to chips made by **Intel** or designed by **ARM Holdings.** "The battery life on this thing is like black magic," says Dave Eiswert, who runs **T. Rowe Price's Global Technology Fund.** Designing components in-house hasn't been the norm at companies like Dell and HP, which in the past have outsourced design to Taiwanese manufacturers to cut costs. Both companies are expanding their own design teams.

The PC giants have a reason to hope they can keep pace. There are only 5,000 apps designed for the iPad. That means Apple's head start will not be as formidable as it was with the iPhone, which now has more than 195,000 apps.

Theo Gray, co-founder of software maker **Wolfram Research,** recently ditched his laptop and used only his iPad on a business trip. "It was totally fine," says Gray. "In terms of trend-setting, it's already too late. Apple has set the trend. The only question is whether everybody else can catch up."
—Cliff Edwards and Peter Burrows

The bottom line *Tablets may reach 25 percent of the PC market by 2015, which puts pressure on Apple's rivals to respond to the million-plus-selling iPad.*

713

MILLION DOLLARS

Amount Microsoft says it lost on Bing, MSN, and other online services over the three months ended on Mar. 31. The unit lost $411 million during the same period a year ago.

Drawing Board



IT'S NOT LIKE I HAVE ANYTHING TO HIDE ANYWAY, THOUGHT BOB.

ILLUSTRATION BY CAM/OTTAWA CITIZEN/CAGLE CARTOONS

Social Media

A Cricket Dispute Leads To a Twitter Win in India

▶ **Tweet-by-Tweet coverage has boosted page views**

▶ **"Got stitches removed.... Will keep you posted on this"**

A year ago, **Twitter** wasn't on the radar screen for most Indians, let alone their PC screens. In the last few months, though, that's changed, and more than 2.3 million people on the Subcontinent tweet and Twitter away their time. That's nothing compared with the U.S., where some 22 million use the microblogging site. But it's a big leap forward, or backward, depending on how you look at it.

What changed? It appears that a heated cricket controversy, playing out in the arena of social media, may have something to do with it. The drama started in February, when Lalit Modi, the founder of the Indian Premier League, was accused of playing favorites in selling new cricket franchises and awarding broadcast rights. Pointing the finger was Shashi Tharoor, a member of Parliament and Foreign Ministry official. He has 774,000 followers on Twitter, more than any other tweeter in India. Tharoor forced the issue online, Modi tweeted his denials –as well as a few accusations of his own–and suddenly the dispute blasted its way into newspapers and onto TV, carrying the Twitter brand name along with it.

Now the government is investigating Modi. Tharoor, facing questions about how a close friend got a piece of a cricket team, has been forced to resign from the Foreign Ministry, though he denies any wrongdoing. And Twitter suddenly has the attention of the second-most-populous nation on earth (or a little piece of it). Twitter page views in India jumped to 45 million in March, up from 26 million in December, a 73 percent increase. Over the same period there was a 21 percent increase in the U.S., according to researcher comScore.

Bollywood megastarlet and cricket team owner Shilpa Shetty recently tweeted that Modi has "Made India Proud," and then asked her 48,000 followers to help her choose an outfit for a party. Sachin Tendulkar, India's most popular cricket player, joined Twitter on May 4. On his first day, he sent 11 tweets along the lines of: "Got stitches removed and the dr feels it will take more time to recover. Will keep you posted on this." At last count, he had 280,000 followers. *—Mehul Srivastava*

The bottom line *When opponents in a fight over cricket aired their grievances via Twitter, Indian use of the microblogging service soared.*

Counterterrorism

Richard Clarke's Four Steps to Cybersecurity

▶ His new book warns of the rising security threat from the Web

▶ The U.S. "gets an F" in defense against digital attacks

Richard A. Clarke isn't known for understatement. The former White House security official wrote a 2004 book that criticized his ex-boss, President George W. Bush, for dropping the ball before the 9/11 attacks, and later testified before Congress that Bush's invasion of Iraq "greatly undermined the war on terrorism." Now Clarke has co-authored a new book, *Cyber War: The Next Threat to National Security and What to Do About It*. Once again, he's not subtle: U.S. companies and government agencies are unprepared for digital terror, intellectual-property theft, and other threats. "The U.S. probably gets an F in its ability to defend in cyberspace," he says. His advice:

1. Get serious about industrial espionage. Clarke says many companies aren't aware of how common trade-secret theft has become, partly because the federal government doesn't keep track of the financial consequences. He says the U.S. needs to be more like the U.K. More than a year ago, the security agency MI5 told the biggest 300 companies in Britain to assume their computers had been hacked by the Chinese and then met with executives to discuss the breaches it knew about and how to prevent future ones.

2. Create information quarantines. Too few companies and agencies keep their most valuable information on a computer network that's separate from the rest of the company–and thus easily sealed off from the Internet as a last resort, Clarke says. He tells the story of Johns Hopkins University's Applied Physics Lab, which does defense research. Last year the lab noticed that data were being pilfered, but they couldn't figure out how to plug the leaks. So it disconnected from the Net. "When a sophisticated place like APL has to resort to unplugging from cyberspace, you realize it's a difficult problem," says Clarke.

3. Build, don't buy, security. Off-the-shelf software may be cheaper, but the more widely available a program is, the more practiced hackers are at cracking it. Clarke identifies two areas too important to leave to nonproprietary technology: military networks and the U.S. electricity grid. Grids worldwide use one of a few commercial brands of systems known as SCADA, for supervisory control and data acquisition; the Pentagon runs on software such as **Microsoft**'s Windows. He says the military should even have a custom-designed, Internet-like network. "Then you couldn't hop from the Internet into the classified networks," he says.

4. Sign a cyber-arms control treaty. Clarke says a good place to start would be an agreement that the international banking system is off limits to government-sanctioned attacks. Every year, he says, some kind of cyber-weapon nonproliferation proposal appears before the U.N. And every year the U.S. opposes it. —*Rochelle Garner*

The bottom line *Governments and hackers-for-hire are already launching constant, sophisticated attacks on U.S. trade secrets and digital infrastructure.*



Diabetes and malaria sufferers may soon benefit from anti-fake technology

ISSOUF SANOGO/AFP/GETTY IMAGES

Telecommunications

How Cell Phones Are Fighting Malaria

▶ Consumers can use a text message to check for fake drugs

▶ "It's using a technology that millions of people have access to"

While malaria is relatively easy to treat if caught early, it kills nearly 900,000 people a year, mostly in Africa. That's because across much of the continent, malaria medicine is hard to come by, and even when available, it's often fake. Although it may be years before every African has access to treatment, new technology could let anyone with a mobile phone verify that drugs are the real deal.

At least two rival systems plan to put unique codes on packages containing antimalarials and other medications. Buyers will be able to text the code to a phone number on the package and get an immediate reply of "NO" or "OK," with the drug's name, expira-

Innovator



De Beer (and De Beer) in a telepresence-equipped room in San Jose, Calif.

Marthin De Beer

Cisco's "telepresence" chief is trying to build a portfolio of billion-dollar businesses

Back in 2006, Cisco Systems CEO John Chambers asked Marthin De Beer to give up a successful 1,500-person business making office phones and start a two-person Emerging Technologies Group. The South African native at first felt deflated. He shouldn't have. Though Cisco was buying startups left and right, it hadn't developed a sizeable new business on its own since its original Internet router business in the 1980s and 1990s. Chambers wanted De Beer to rekindle the company's ability to create innovations from scratch.

De Beer's first in-house technology initiative, Cisco's videoconferencing business, is on pace to bring in $175 million in sales a year. That revenue came from high-end "telepresence" systems that make you feel as if you're in the room with people wherever they may be—a far cry from the low-res, hard-to-use videoconferencing gear that had given the industry a bad name for decades. "Cisco has elevated the world's awareness of videoconferencing," says Wainhouse Research analyst Andrew Davis.

Soon after he agreed to take the job, De Beer recruited a team of video experts and told them to spare no expense to create a high-def, low-pain experience. To maintain a startup-like zeal, he kept the project sequestered from Cisco's engineering and sales bureaucracies, but took advantage of the company's promotional muscle. Telepresence showed up as a product placement in TV shows such as *24*.

Building on De Beer's work, Cisco spent $3.2 billion to acquire Norwegian videoconferencing market leader Tandberg, which had $900 million in revenue last year. Now, De Beer dreams of making videoconferencing as widely available as e-mail. By Christmas, he vows, Cisco will be selling gear that lets anyone with an HDTV set join a telepresence session from their living room.

De Beer says he has five other projects under way that could one day bring in more than $1 billion a year, such as digital billboards and facial-recognition security systems. "Telepresence is the first proof point that we can take an idea and turn it into a very big, very profitable business," says De Beer. None of his other initiatives are anywhere near 10 digits in sales. If De Beer repeats the success he had with videoconferencing, investors may even begin to think of Cisco as a growth company again. B —*Peter Burrows*

Impact ▸ Telepresence unit went from zero to $175 million in sales in four years

Background ▸ Grew up in South Africa. Studied at University of Pretoria

Personal motto ▸ "Never be too proud to backtrack"

Technology

tion date, and other information. "This is a big blow to counterfeiting," says Bright Simons, co-founder of mPedigree, a Ghanaian startup working with **Hewlett-Packard** on one of the systems.

Simons expects to put 10-digit codes on about 125,000 packets of malaria medications in Ghana and Nigeria in a six-month trial starting in December. In 2008, mPedigree did a trial with bottles of acetaminophen syrup. At the urging of pharmacists, nearly all 3,000 customers who bought the syrup sent in the code, Simons says. "When a pharmacist tells a patient that something is worth doing in Africa, they listen," he says.

Nigeria's drug regulator is testing a rival service with Glucophage, a diabetes treatment from Germany's **Merck.** That service was developed by Ashifi Gogo, an mPedigree co-founder who left to start his own company, Sproxil. By June, Gogo expects to have codes on 1.5 million packs of Glucophage, and he says he's in negotiations with other pharmaceutical companies.

Drugmakers will pay for the systems through subscription fees. Using mPedigree's technology will add about 4¢ to the cost of a typical $4 malaria treatment, Simons says. He's confident that will be more than offset by a reduction in counterfeits. London-based **GlaxoSmithKline** says it's considering using mPedigree's technology, and Simons is in discussions with three other big drugmakers, he says. His company wrote software that generates the codes and checks them against a database stored in computers run by HP. "We'll be able to get information back to the pharmaceutical companies about where their drug is actually being used," says Mick Keyes, an HP executive overseeing the program. "They like the model."

Dozens of companies are developing anti-counterfeiting technologies such as holograms and bar codes. But mobile phones may be a simpler and cheaper solution, says Patrick Lukulay of the United States Pharmacopeial Convention, a Maryland nonprofit that tracks fakes. "In a low-tech, resource-limited environment it's very effective," Lukulay says. "It's using a technology that millions of people have access to." B —*Simeon Bennett*

The bottom line *As mobile phones spread across the developing world, they're being used in unexpected ways—including, now, to fight counterfeit drugs.*

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Prudential CEO Thiam's job may hang on the success of his deal to buy a big subsidiary of AIG

An Insurance Giant's Make-or-Break Deal

▸ **Investors resist a $35.5 billion bid by Britain's Prudential for a unit of AIG**

▸ **A critic describes it as selling "billions of cheap stuff to buy billions of expensive stuff"**

When Tidjane Thiam was strategy director at British insurer Aviva in 2006, he tried to buy **Prudential,** the U.K.'s biggest insurer. The bid failed. Thiam's career flourished and subsequently he moved to Prudential (which has no connection to the U.S. company of the same name) and became chief executive officer seven months ago. Now he's trying another ambitious acquisition—the purchase of **American International Group's AIA Group** for $35.5 billion. If he fails this time, investors say, he may pay with his job, and the 162-year-old insurer itself could be broken up.

"Given that the CEO and the chairman [Harvey McGrath] attached their credibility and careers to this deal, it's going to be very difficult for them to survive if this fails," says Colin McLean, who helps manage $975 million at SVM Asset Management in Edinburgh. McLean sold his Prudential stock earlier this month because he doesn't support the bid.

AIA sells life, accident, and health insurance policies and private retirement planning and wealth management services in Asia, where it has more than $60 billion in assets. The purchase would make Prudential the biggest international insurer in Asia, Thiam, 47, told reporters in March. Prudential plans to fund the acquisition by raising $21 billion in a rights offering, in which existing shareholders get the chance to buy more stock. Earlier this month, the U.K.'s Financial Services Authority, the equivalent of the Securities & Exchange Commission, blocked the offering, which had been scheduled for May 28, over questions about Prudential's capital levels. Specifically, the FSA is concerned that in the event Prudential needed extra capital to deal with a financial crisis at home or in the U.S., regulators in Asia might prevent it from tapping capital reserves from its subsidiaries, according to two people with knowledge of the situation. The delay may be the "final straw" for the takeover, says Barrie Cornes, a London-based analyst at Panmure Gordon, who has a "buy" rating on the stock.

Prudential may seek to increase its capital reserve by $1.5 billion, says a person with knowledge of the matter. And it is in talks with AIG to change the terms of the deal to help win FSA approval. Yet even if Thiam gets a go-ahead from the FSA, he still needs 75 percent of investors to support the rights offering. That won't be easy. London-based Neptune Investment Management

BRUNO VINCENT/CAMERA PRESS/RETNA

has started a Web site, www.prudentialactiongroup.com, to encourage fellow shareholders to oppose the bid.

Thiam has an unusual history for an insurance CEO. Born in the Ivory Coast, a former French colony, and schooled in Morocco, Thiam started his career working for McKinsey in France. He returned to the Ivory Coast, spending five years working for the nation's development department before the government was deposed in a military coup in December 1999. He escaped unhurt after being placed under house arrest. He returned to McKinsey before moving to Aviva, the U.K.'s second-biggest insurer, as head of group strategy and development in 2002. Six years later, Thiam joined Aviva competitor Prudential as chief financial officer.

$25bn

The amount AIG planned to repay the U.S. government after the AIA sale

Investors fault Thiam for failing to make a strong case for the purchase. Thiam and Finance Director Nic Nicandrou held investor meetings in London, Hong Kong, and the U.S. after announcing the takeover on Mar. 1. Thiam was unable to provide any detail on AIA's investments, capital structure, or trading beyond the Mar. 1 statement, says one investor, who declined to be named because the meeting was private. "To support a rights offering of that size you need to be confident that the assets you're buying are being acquired at a very good price," says Ivor Pether, who helps oversee $9 billion at Royal London Asset Management. "That hasn't really been demonstrated yet."

"Our investors are waiting for the prospectus, and we will be publishing it as soon as we can," says Ed Brewster, a spokesman for Prudential. Thiam would not comment for this story. The prospectus is important because it contains critical information on AIA's assets and the final terms of the deal.

"From a strategic perspective this deal makes absolute sense," says James Laing, who helps manage $256 billion at Aberdeen Asset Management, a big Prudential shareholder. "We need to see the prospectus so that we can make a sensible judgment on the valuation."

The deal is not as critical for AIG as it is for Prudential. The bailed-out insurer has said it would use at least $25 billion from the AIA sale to pay down a Federal Reserve credit line that expires in 2013. AIG originally planned an initial public offering for AIA. If the Prudential deals falls apart, says Clark Troy, a senior analyst for research firm Aite Group, AIG will be able to sell the unit "either through an IPO or another buyer coming along."

Cavendish Asset Management is among the Prudential investors that have said breaking up the company would be a better move than a major acquisition. Shareholders would receive $36 billion, about 75 percent more than the company's present market value, if the U.K., U.S., and Asian divisions were sold off separately, according to Cornes at Panmure Gordon.

James Clunie, manager of the $2.3 billion U.K. Growth Fund at Scottish Widows Investment Partnership in Edinburgh, didn't wait to see how it all plays out. He sold his fund's Prudential stock after the deal was unveiled. (Other Scottish Widows funds still hold Prudential shares.) Prudential's raising money to fund the acquisition amounts to selling "billions of cheap stuff to buy billions of expensive stuff," Clunie says. "It's a bad deal. It doesn't look sensible." B
—*Kevin Crowley*

The bottom line *Thiam faces two daunting challenges: completing the AIA acquisition, then proving that the purchase was worth $35.5 billion.*

Global Markets

Great Wall of Worry for China Stock Investors



▶ **Shanghai's index falls 20 percent from November into bear territory**

▶ **If inflation heats up, "the central bank will have to raise rates"**

The market melodrama over Greece's fiscal crisis has overshadowed the growing global investor disenchantment with Chinese stocks. The Shanghai composite index fell 1.9 percent on May 11 after a higher-than-expected jump in consumer prices and is now off more than 20 percent from a November peak, a downturn usually defined as a bear market.

Investors are jumpy about the frothy state of the Chinese economy and fear it could signal big problems. Consumer prices advanced 2.8 percent in April from a year earlier, and property prices rose a record 12.8 percent, according to the latest official numbers from Beijing. Chinese President Hu Jintao's govern-

Drawing Board



SHANGHAI: A KAI FJ/IMAGINECHINA; ILLUSTRATION BY KIRK/KING FEATURES. OPPOSTIE FROM LEFT TO RIGHT: AFP/NEWSCOM; BLOOMBERG (2); BLOOMBERG/GETTY IMAGES



Why there's optimism in South Africa page 48 ►

Wall Street Memories

Reliving the Glory Days of DLJ

At a time of existential crisis on Wall Street, bankers who worked at Donaldson Lufkin & Jenrette before its 2000 takeover by **Credit Suisse** will reunite at Manhattan's Cipriani restaurant on May 20. Many have gone to positions of prominence but miss the old days. "It really did have its cult aspects," says Tony James, now president of **Blackstone Group** and former chairman of DLJ's banking group. "People loved working there." Here's where some of them landed. Ⓑ *—Jonathan Keehner and Jason Kelly*



Private Equity	**Tony James** Blackstone *President*		**Nicole Arnaboldi** DLJ Merchant Banking Partners *Chairman*	**William Dawson** Wellspring Capital Management *Managing Partner*	**Thompson Dean** Avista Capital Partners *Co-CEO*
Investment Banking	**Kenneth Moelis** Moelis & Co. *CEO/Co-founder*		**James Neissa** UBS *Global co-head of investment banking*	**Hal Ritch** Sagent Advisors *CEO/Co-founder*	
Hedge Funds	**Bennett Goodman** GSO Capital *Mng. Partner/ Co-founder*	**David Einhorn** Greenlight Capital *Chairman*	**Bruce Richards** Marathon Asset Management *CEO/Co-founder*		
Corporate/ Government	**Peter Grauer** Bloomberg *Chairman*	**William Donaldson** SEC *Former Chairman*	**Safra Catz** Oracle *President*	**Susan Decker** Yahoo! *Former President*	**Lawrence Schloss** New York City Pension Funds *Chief Inv. Officer*

DATA: HANA BEN-SHABAT, A.T. KEARNEY

ment is trying to contain full-year inflation at a 3 percent rate in an economy that clocked astounding 11.9 percent growth in the first quarter and shows no sign of slowing down.

The property price spike suggests that stronger measures might be needed to curb the runaway real estate speculation in Chinese cities such as Shanghai and Shenzhen. Three times this year the central bank, the People's Bank of China, has ordered lenders to increase their capital reserve levels, effectively lowering the amount of money available to lend. At the same time Beijing also raised mortgage rates and down payment requirements for second home purchases—and imposed an outright ban on loans for third-home purchases. (That's right, third-home purchases.)

Emerging-markets investor Marc Faber didn't help sentiment with his prediction on May 3 that China's economy may "crash" within a year. The price declines of Chinese stocks and commodities may signal the country's property bubble is set to burst, Faber said. True, that's a minority view, but other investors are worried about slower growth if Beijing tightens monetary policy to cool the economy. "If inflation isn't contained, the central bank will have to raise interest rates," says Zhao Zifeng, who helps oversee about $10.2 billion at China International Fund Management, an investment firm in Shanghai.

The rescue package for Greece pulled together by the European Union and the International Monetary Fund may free Chinese officials to focus on containing asset prices and inflation at home rather than worrying about the global economy, says Li Daokui, an adviser to the People's Bank of China. "The double-dip risk in the world economy is likely to be reduced to a minimum," Li said in a telephone interview in Beijing. "The main policy focus should be on preventing excessive gains in asset prices and liquidity." Ⓑ
—Zhang Shidong

The bottom line *China has too much of a good thing. Stocks have fallen on fears that the government will take strong measures to rein in runaway growth.*

Wall Street

Buying Amid the Plunge, Bulls Keep the Faith

- **Worries about Greece, they say, won't derail the long rally**
- **"The world is having a strong economic recovery"**

As they ponder their next moves, many investors are worried about the crisis in Greece, job creation, and the little matter of the 1,000-point stock market drop on May 6. None of that has shaken the belief of some big professionals that the U.S. bull market is intact, and stocks are headed higher.

Birinyi Associates, the research and money-management firm founded by Laszlo Birinyi Jr., bought shares on the day of the 1,000-point drop in the Dow Jones industrial average (the index closed that session with a 348-point loss). The firm has stuck

Goldman's Golden Quarter

0

Days Goldman traders lost money in the first quarter, a feat matched by BofA, Citi, and JPMorgan Chase.

35

Days Goldman's trading revenue was $100 million or more. It exceeded $25 million on all 63 trading days.

9.74

BILLION DOLLARS

Goldman's trading revenue for the quarter, accounting for 76% of the firm's total revenue.

DATA: GOLDMAN SACHS

with its forecast that the Standard & Poor's 500-stock index will climb 13 percent from the May 12 close of 1172 to 1325 this year. "Almost all bull markets have a correction at some point, and that point could be now," says Jeff Rubin, director of research at Birinyi Associates. "That doesn't change the outlook for the year."

Barton Biggs, who runs New York-based hedge fund **Traxis Partners,** says he is "betting the next move in the U.S. market is going up 15 to 20 percent." Biggs recommended buying U.S. stocks at the low last year. "I would just point out that the world is having a strong economic recovery," he says.

On the day of the big drop, Thomas Lee, chief U.S. equity strategist at **JPMorgan Chase,** reiterated his forecast that the S&P 500 will end the year at 1300. Among the equity strategists tracked by Bloomberg, Lee and **Goldman Sachs**' David Kostin were the most accurate in predicting the market's 2009 gain.

Not everyone is quite so sanguine. "We're inclined to think this is a much deeper problem than has been fully discounted in the market so far," says Bruce McCain, chief investment strategist at **Key Private Bank.** "The market had been shoving aside any concerns ... to the point where we reached the stage of too much optimism."

McCain says the losses won't undo the S&P 500's 73 percent advance since March 2009. As the U.S. economy expands and banks, brokerages, and insurers recover, profits for S&P 500 companies are forecast to jump 34 percent this year, the most since 1988. Earnings from continuing operations may reach $95.56 a share in 2011, exceeding the 2007 record, according to estimates of analysts tracked by Bloomberg.

"We'll get a sharp correction," says McCain, "but I don't think this spells the end of the bull market."

Even the pros who say stocks will continue to climb don't expect a smooth ride. "This is going to be messy," says Stephen Wood, chief market strategist for **Russell Investments** in New York. "It's going to be a grinding slog of an environment." *—Whitney Kisling and Lynn Thomasson*

The bottom line *After the market's strong recovery from its March 2009 low, a few rocky days aren't enough to convince bulls that the rally is over.*

Mutual funds

Portfolios That Protect Against Rising Rates

As investments, leveraged loans are hot, but don't expect another 2009

Performance of leveraged-loan funds



Rising rates are the bane of bond fund investors. That's because when interest rates climb, the value of bonds–and the funds that invest in them–falls. Right now, with rates at historic lows, bond investors have reason to be cautious, which may explain the appeal of leveraged-loan mutual funds.

Leveraged loans are made to companies with credit ratings below investment grade; the debt tends to be riskier and carry higher interest rates than standard loans. And here's the key: Those rates are usually variable, pegged to a benchmark such as Libor (the London interbank offered rate). That means when interest rates climb, the rates on leveraged loans go up as well, preserving their value.

"The attraction is the floating-rate feature," says Eric Jacobson, director in fixed-income research at Chicago-based Morningstar. "The beauty of floating-rate loans ... is the income those loans pay will ratchet up quickly right along with rising short-term rates."

Mutual funds that invest in leveraged loans have been around for more than 20 years, but the category is suddenly attracting a lot of new money. Investors poured almost $3 billion into bank-loan mutual funds in March and April, nearly four times the amount for the same period last year, according to Lipper FMI data. The category has about $33 billion in assets.

All the new cash hasn't gone unnoticed. **Goldman Sachs, BlackRock,** and **Blackstone**'s GSO Capital Partners have all said they will launch mutual funds to invest in leveraged loans. GSO's floating-rate fund is the firm's first offering for individual investors.

Charlie Rose talks to

Nouriel Roubini



In 2006, economist Nouriel Roubini famously predicted a global recession. His new book, *Crisis Economics*, addresses the consequences

What have we learned from these crises of capitalism?
The first lesson is that crises are not "black swan" events, using the terminology of my friend Nassim Taleb. They're not just random outcomes. They are the result of a buildup of financial and policy vulnerability and mistakes–excessive risk-taking, leverage, debt, and so on. The first chapter of my book is called "The White Swan" because these events are predictable. But generation after generation, we seem to forget the past. When there's a bubble, there's euphoria. There's irrational exuberance. Consumers can use their homes like ATM machines. Governments and policymakers are happy because they get reelected. Wall Street makes billions of dollars of profits. Everybody's delusional.

What happened to all the toxic assets?
Some of them have been written down, but the policy response has been pray and delay. Many banks are still carrying these assets and loans on their books at face value of a hundred cents on the dollar.

How long will they be under water?
A long time. Prices for homes have fallen by 30 percent from the peak. Prices of commercial real estate have fallen by 40 percent. They may be stabilizing, but prices are not going to go up 30 percent or 40 percent anytime soon. Therefore many of these bad assets have negative equity, meaning the value of the assets is lower than the value of the mortgage or the debt on it. People are going to walk away from their homes.

Aren't they doing that now?
They're doing it increasingly. People refer to it as jingle mail. You put the keys in an envelope, send it back to your banker. It's happening on a massive scale. Especially in the U.S., if you walk away from your home when the value is below the value of your mortgage, they cannot go after you to recoup the difference between the two.

Where's the next bubble?
I see it in the fact that interest rates in all of the advanced economies are near zero. In the U.K., Europe, Japan, everybody can borrow at zero rates. And because of that, it's back to business as usual on Wall Street. Most financial institutions are making huge amounts of profits in proprietary trading–borrowing at zero rates and making investments. It was just announced that in the first quarter, Goldman Sachs did not have a single day in which it lost money on trading. I worry that zero interest rates are leading to an asset bubble globally. I don't think it's going to burst for the time being, but give it two or three years.

So it's not a specific bubble like a housing or technology bubble?
No, at this point I think it's generalized. Effectively you can borrow at zero rates and invest in any risky asset, and the value of most risky assets for the last year has gone up by 50 to 80 percent.

Other than raising interest rates, what should the government do?
You need tighter supervision and regulation. The Dodd bill is not enough. Institutions that are too big to fail are becoming even bigger. [For example,] JPMorgan took over WaMu and Bear Stearns. So if they're too big to fail, they're too big. We should break them up. They're also becoming increasingly too big to be bailed out. And they're becoming too big, too complex, to manage. These financial supermarkets ... have become disasters. There's no way the CEO of a bank can monitor the risk-taking of thousands of different traders and bankers. I would say if you're a bankholding company, you cannot do proprietary trading. You cannot have private equity or hedge funds activities. I would go back to the kinds of restriction we had under Glass-Steagall when there was a full separation between commercial banks and investment banks.

On the face of it, is anything wrong with hedge funds?
No, there's nothing wrong with hedge funds. I think they have a role to play. But take an institution like Goldman Sachs. In many ways it looks like a hedge fund ... and is more leveraged than any hedge fund. It can borrow from the government at zero rates. So if Goldman Sachs wants to be a hedge fund, be a hedge fund. But don't have taxpayers guarantee your liabilities.

What's going to happen to Greece?
You have riots, people dying in the streets. In spite of this huge bailout program, the public debt and the fiscal adjustment is so large that I think eventually Greece will default or restructure its debt in a corrosive way. There's even a chance Greece might have to exit the European market. B



Watch Charlie Rose on Bloomberg TV weeknights at 8 p.m. and 10 p.m.

BRIAN SMALE



Chicago sold $128.8 million of insured, tax-free bonds in April to fund projects at O'Hare airport

There's a danger with these funds: When the economy weakens, heavily indebted companies may default. That possibility can drive down the value of leveraged loans. During the credit crisis year of 2008 the average leveraged-loan fund lost 30.3 percent, according to Morningstar. In 2009 the funds soared. Last year, Eaton Vance Floating-Rate Advantage returned 65.2 percent, best among 28 leveraged-loan funds tracked by Morningstar. That fund, which borrows money to boost results, has returned 6.7 percent this year and yields 4.2 percent. (Returns are as of May 7; yields are as of Apr. 30.)

Only Highland Floating Rate Advantage has done better this year, returning 6.8 percent; it yields 3.8 percent. By comparison, a conventional bond portfolio such as **Vanguard's** Intermediate Term Investment Grade has returned 4.9 percent and yields 4.8 percent.

Jacobson cautions that last year's returns were a reflection of unique conditions. "If anyone is buying a fund like this because they saw fat returns in 2009, they need to take another look at why they are buying," he says. "Almost certainly we won't see the same performance this year as '09."

—Kristen Haunss

The bottom line *Unlike most other fixed-income funds, leveraged-loan funds can help when rates rise. But the debt they invest in is risky.*

Municipal Finance

Chicago Pays for Selling Bonds Without Bids

- Negotiated sales are a tradition, but auctions would save money
- "It's something that would have benefited the city"

Chicago Mayor Richard M. Daley hired JPMorgan Chase investment banker Gene Saffold to be the city's chief financial officer and gave him a simple order: Protect the taxpayer. "During these tough times, when people are hurting, this is more important than ever," Daley said in introducing Saffold in March 2009. "We must be creative and bold."

Despite that mandate, Saffold is sticking with one costly tradition: the city's more than two-decade practice of selling long-term bonds through private negotiations with banks rather than through open bidding. Arranging competitive auctions for the $2 billion in bonds Chicago has sold since Saffold took the job would have saved taxpayers millions of dollars, according to internal city documents and a review of its sales by Bloomberg.

In a negotiated deal, the issuer hires a pool of banks to find buyers for its bonds, with interest rates set in discussions with those underwriters. In a competitive sale, underwriters electronically submit the interest rates they're willing to pay, and the lowest bidder wins. While about 85 percent of municipal bond sales around the country are negotiated, according to data compiled by Bloomberg, most cities and states do at least some via competitive bidding. "It helps to do a mix of both," says Daniel Kaplan, president of Kaplan Financial Consulting in Wilmette, Ill. "Chicago is the extreme of issuers that don't do any."

Quoted

"Ultimately, we may learn that the extraordinary disruption in trading... was the result of a confluence of events which, taken together, exacerbated what already had been a down day and led to an extraordinarily steep price drop and recovery. However, we are not prepared at this time to draw that conclusion."



— Securities & Exchange Commission Chairman Mary Schapiro on May 6

FROM TOP: AP PHOTO; BLOOMBERG. OPPOSITE: CLOCKWISE FROM TOP LEFT: WIREIMAGE/GETTY IMAGES; BLOOMBERG; VISMEDIA; CORBIS; AFP/GETTY IMAGES

Chicago avoids bidding out its bond deals because local politicians don't want to alienate investment bankers who donate to charities and political campaigns, says J.B. Kurish, a former investment banker in Chicago who is now an associate dean at Emory University's Goizueta Business School in Atlanta. "Firms get chosen to be negotiated underwriters as payback."

Saffold, 55, a native of Chicago's South Side, rejects that charge. He says that industry and city rules prohibit making contributions in exchange for underwriting work. He argues that negotiated sales allow the city to react to changing market conditions and boost participation of minority-owned underwriters, and that they don't cost more. "We've gotten effective pricing," he says, "especially if you look at us compared to other state and local governments."

That's not always the case. On Apr. 12, the city sold $128.8 million of insured, tax-free O'Hare International Airport bonds. It paid about a third of a percentage point more than the Florida Transportation Dept. did on a lower-rated issue sold through bidding at around the same time, according to data compiled by Bloomberg. During the 20-year life of the bonds, that translates to about $8.2 million in additional interest payments. Saffold says that attributing the price difference to the method of sale is "misleading."

Saffold's predecessor, Dana Levenson, says he regrets that he was unable to persuade city officials to switch to competitive bidding. "It's something that would have benefited the city of Chicago," says Levenson, who is now head of North American infrastructure banking at Royal Bank of Scotland Group's Chicago office.

The city could use the money. It faces the worst financial crisis of Daley's 21-year tenure. The mayor closed a $520-million deficit in the current budget by tapping a reserve fund from a 75-year lease of parking meters, putting workers on unpaid furlough and eliminating funding for civic traditions such as Venetian Night, a lakefront festival Daley's father started more than 50 years ago. B

—Darrell Preston and John McCormick

The bottom line *Chicago could pay lower interest rates on its bonds if it sold them via competitive bidding.*

Bid & Ask



Fashion

If the shoe fits, buy it. Jones Apparel Group is paying a group of private equity investors **$180 million** for a 55 percent stake in Stuart Weitzman, a maker of high-priced shoes. Jones, which also owns the Nine West, Bandolino, and Joan & David brands of footwear, has committed to buying out founder Stuart Weitzman's remaining 45 percent stake by 2012.



Real Estate

In a sign that New York City's commercial market is rebounding, SL Green Realty is using the **$576 million** in proceeds from the sale of its stake in McGraw-Hill's Manhattan headquarters to buy into two office buildings, one at 125 Park Ave. (pictured above) and another at 600 Lexington.

$2.1 mn

Finance

The judgment derivatives trader Saleem Khatri won in a contract dispute over an unpaid bonus after he lost his job at Rabobank Nederland. He is one of more than a 100 British bankers who have sued their former employers to recover bonuses and other pay.



Retail

Mohamed Al-Fayed, the owner of Harrods, is selling the 161-year-old luxury department store to Qatar Holdings for **$2.2 billion.** Qatar's sovereign wealth fund is no stranger to British retailing: It's already the largest shareholder in Britain's No. 3 supermarket chain, J Sainsbury.

Telecom

An auction in India for 93 licenses for high-speed mobile data services is expected to raise more than **$12.5 billion.** The high figure is fueling concerns that the bidders—including Vodafone Group and Bharti Airtel—won't be able to recoup their investments.



Mining

India's Vedanta Resources agreed to pay **$1.3 billion** for a group of zinc mines in Africa and Ireland owned by Anglo American.

$5.8bn

Software

SAP, the world's biggest maker of business-management software, agreed to acquire Sybase in a transaction valued at $5.8 billion to help fend off competition from Oracle. Sybase, based in Dublin, Calif., specializes in software that helps financial institutions analyze information.

Power

NINA

Asia's biggest utility, Tokyo Electric Power, is paying **$125 million** for a 9.2 percent stake in Nuclear Innovation North America, a U.S.-Japanese venture that plans to build nuclear reactors in South Texas.

Collectibles

$30+ mn

The price fetched by a 1936 57SC Atlantic coupé, one of only three produced by Bugatti, at a California auction, making it the most expensive car in the world.



South Africa's economy has grown steadily since the end of apartheid rule. On the eve of the World Cup, the country measures how far it has come—and how far it still has to go. By Ken Wells. Photographs by Brent Stirton

The Big Bounce



Heading the ball in Soweto: Approximately 483,000 soccer fans are expected to invade

A couple of miles beyond the 900-foot-high bungee-jumping tower, past the $100 million, 235-shop Maponya Mall, and a short cab ride from the 94,700-seat World Cup soccer stadium, Sakhumzi Maqubela stands before his restaurant contemplating a question on the economy.

It's a pristine day in Soweto, the late part of the midweek lunch rush, the place about half cleared out. Tourists, hiding from the sun under red Coca-Cola umbrellas, pick at plates of tripe or chicken curry as the voices of costumed tribal singers drift across a patio. "It is nice sometimes when you don't understand that you are supposed to be worried," says Maqubela, a cheerful man with close-cropped hair, crisp chinos, and a pressed yellow shirt. "We kept asking, 'What is this "reception" they are talking about?' "



This is Maqubela's way of saying that while the recession that spread across the world in 2008 did reach South Africa last year, it was more of a ripple than a wave. Sakhumzi Restaurant, the tiny eatery he started eight years ago, is now a thriving 450-seat diner with 48 workers. The mild downturn didn't much clip the wings of his corporate clients or cause many of his package tour customers to cancel their visits. "We basically never felt the recession here," he says.

In 1992, on my first reporting trip to South Africa, Soweto was a raw slum of open sewers and shacks jammed with 1 million people—the seething epicenter of black revolt against the white apartheid government. Raids by the white regime were as common as they were unpredictable; murderous tribal and ethnic political conflicts made it a dangerous place to visit. A race war didn't seem far-fetched. Now, that palpable sense of violence has been replaced by bungee-jumping tourists and a generation of opportunistic small business owners.

"Growing up in Soweto," says Maqubela, "I didn't think this would ever be possible." His restaurant is one of 25 catering to tourists in this enclave five miles west of downtown Johannesburg. About 30 bed-and-breakfasts have also sprung up in recent years, and an estimated 1 million visitors pour in annually to see, among other things, the family home where Nelson Mandela plotted his antiapartheid strategies.

The transformation of Soweto is part of the larger, mostly hopeful story of how South Africa's economic and political prospects are intertwined. This is—or should be—South Africa's year to shine. Starting on June 11, the FIFA World Cup of Soccer kicks off here, the first time the global sporting event, with a television audience estimated to be half the world, has been held on the African continent. Hundreds of thousands of tourists will fly in for the monthlong festivities, potentially providing a boost not just to South Africa's economy but to its reputation.

24%

South Africa's 2009 unemployment rate

What visitors will find is a nation of First World amenities and infrastructure, and a place where optimism is perennially tested by unresolved Third World issues of poverty, crime, inflation, and racial tension. Already the undisputed economic engine of Africa—it accounts for 39 percent of sub-Saharan Africa's gross domestic product—South Africa still labors with plenty of fiscal shortcomings. One of them is that the recession did bite at least a little. Unemployment, which had been trending downward since 2006, rose in 2009 to 24 percent from 22 percent in 2008, throwing tens of thousands of mostly poor and middle-class black South Africans out of work.

On the positive side, South Africa (pop. 49 million) has proven resilient. While it saw a negative GDP of 1.8 percent last year, the economy began growing again at the end of 2009, aided by the vital, $27 billion-a-year tourism industry that saw a slight uptick in visitors in an otherwise down year. Moreover, South Africa has weathered a recent bout of tension sparked by incendiary remarks made by an upstart Af-



Soweto entrepreneur Maqubela outside his restaurant

rican National Congress (ANC) politician and the murder of a notorious white supremacist. Predictions by pundits here and abroad of race riots didn't pan out.

"All things considered, I think we've done well," says JP Landman, head of a Johannesburg consulting firm who parses South Africa trends for government and corporate clients. Landman points to an unbroken string of gross domestic product and per capita income growth–aside from last year–since multiracial democracy came to South Africa in 1994. "We've had a transition, we are generating more and more cash flow," he says. "The issue now is whether we can generate the social capital needed for progress, for modernity."

Since Mandela's ANC party swept to power 16 years ago, ending 46 years of white rule, the government has steered an often tricky course between growth-oriented, free-market, open-trade policies and heavy spending on services–housing, electricity, running water, health clinics–that were often unavailable to the black majority. By its own accounting, it has built 1.2 million houses and provided water to 7 million people who didn't have it. Today it spends more than $22 billion on education, up from about $6 billion in 1994. Still, 24 percent of South Africans live without running water, 20 percent have no electricity, and 35 percent of students never finish high school despite the increase in spending.

The World Cup events will provide a pop, adding an estimated $13 billion-plus to the economy on top of the $2.6 billion the government is spending on stadiums, transport infrastructure, promotion, and closing ceremonies–although expectations have been tempered. In April, consulting firm Grant Thornton projected that foreign visitors to the event will fall about 23 percent short of the pre-Cup estimates of 483,000. Match Services, the official ticketing agent for world soccer's governing body, FIFA, said it had relinquished 450,000 nights of hotel room bookings because of slack demand.

Maqubela is still optimistic that his Soweto restaurant will get a decent World Cup pickup, given its proximity to the giant Soccer City stadium, where nine matches will be played, including the final on July 11. Not everyone shares his certainty.

"We miss the Americans," says Abdul Ngifenou, who counts 2009 as the slowest of the eight years he has operated an African crafts stall in the upscale Johannesburg suburb of Rosebank. The number of foreign tourists seems to have picked up since February, "but they aren't buying," Ngifenou says.

Dave Luman of Cape Town Framed, a gift shop just off the bricked pathways of the leafy St. Georges Mall, is optimistic, but also clear-eyed about the potential threats to South Africa's economic momentum. He has ordered an additional 70,000 rand (about $10,000) of inventory because about a third of his sales are already soccer-related items, and he hopes that business will be brisk. "That is," he says, "if the Malema debacle doesn't scare people away."

The actions of 29-year-old Julius Malema set off a month of soul-searching over whether South Africa can ever be a post-racial society. Malema is leader of the ANC's Youth League, a position that previously has been held by Mandela himself; in theory Malema could become South Africa's President one day, given that the ANC regularly polls about 90 percent of



Soweto tourists can bungee-jump off a 900-foot tower

the votes of the nation's 80 percent black majority. A onetime staunch ally of current South African President Jacob Zuma, his fiery, anti-Establishment speeches play well in the townships, particularly among South Africa's large number of unemployed black men.

Malema (rhymes with dilemma) first made waves last year with his repeated calls for the ANC to nationalize the country's mines–a suggestion that was rebuffed by the ANC and even drew derision from the South African Communist Party. Then, earlier this year, he rattled many of South Africa's 4.3 million whites by traveling to Zimbabwe and endorsing the political party of President Robert Mugabe.

Zimbabwe is a vastly poorer neighbor separated by an unsealed border. More than 569,000 Zimbabweans have fled political and economic upheaval since 2007, according to CIA figures, many settling illegally in South Africa, which is already feeling the strain of more than 1 million illegal migrants from all across Africa. Meanwhile, scores of white farmers have been murdered there.

Malema whipped up Zimbabwean crowds by singing an anti-apartheid song with the refrain "kill the Boers," a reference not just to white farmers but to all whites who trace their ancestry to the Dutch farmers who began settling the Cape area of South Africa in 1652. In a tantrum broadcast on nationwide TV, he later tossed a white BBC journalist out of a press conference, ridiculing him as a "bastard" and "small boy" for daring to question Malema's Zimbabwe statements.

It didn't help that the Malema affair was still unfolding on Apr. 3 when Eugène Terre'Blanche, a 69-year-old white-supremacist, was bludgeoned to death in his bed by two black farm workers near the town of Ventersdorp, 60 miles west of Johannesburg. Terre'Blanche's supporters promptly cited Malema's singing of the "kill the Boer" lyrics as a provocation. Police, looking into motives, say they don't think the murder was political. They are investigating the possibility that the slaying was part of a wage dispute or involved Terre'Blanche soliciting sex from the accused killers, both of whom are male and one of whom is a minor.

$13bn

Projected World Cup revenue

Meanwhile, Zuma stood silent on Malema until Apr. 10, when he issued a statement denouncing him as "alien" to ANC values–a little late for many outraged whites. After a disciplinary hearing, Malema reached an agreement with the ANC on May 12, pleading guilty to "behaving in such a way as to pro-

voke serious divisions or a breakdown of unity in the organization," the ANC said.

Newspapers bristled with predictions of a return to the upheavals that marked the tense years between the time Mandela was released from prison in 1990 and the 1994 elections that brought Mandela and the ANC to power. Then, political killings exploded across the landscape. In June 1992, 45 ANC members were gunned down by a rival political faction, and the assassination of ANC stalwart Chris Hani by a white extremist a year later nearly plunged the country into civil war.

The Malema-Terre'Blanche timing, with the World Cup looming, couldn't have been worse. "World Cup War: Machete Threat to England Fans," blared a headline in the Apr. 5 issue of London's *Daily Star*.

These things don't matter just to soccer fans. Africa and the world can't afford for South Africa to turn into the next Zimbabwe. The country already generates two-thirds of the continent's electricity. Once a nation of tariffs, South Africa has liberalized its trade policies with its African neighbors; in 2008 it did $104.7 billion in business with the 46 other nations of sub-Saharan Africa.

The mines Malema would nationalize sit on huge reserves: South Africa has 90 percent of the world's platinum, 80 percent of its manganese, 73 percent of its chrome, and 41 percent of its gold, according to government estimates. South African farmers account for 8 percent of the country's exports and help feed Africa and the world. Roughly twice the size of Texas, South Africa also can boast a first-world freeway system, world-class banking and telecommunications systems, and a stock market that has attracted $41 billion in investments from the U.S., according to government data.

For those with money, living standards are high. If you look past the razor wire decorating every gate and fence around every house or apartment, the better parts of Johannesburg might remind you of Santa Monica, Calif. Yet as the razor wire suggests, the Third World lurks around many corners. If your taxi ride from O.R. Tambo International Airport should take you through the township of Alexandria, you would see slums as squalid as any in Asia or Latin America.

This tension between prosperity and the underclass, with its racial overtones, is the subtext of the Malema affair, and it has prompted a fear that South Africa's disenfranchised will one day elect a Mugabe-like strongman out of spite or impatience. In Melville, a suburb of modest gated houses charac-

"The chattering classes told us the country's going into an abyss, we're going to collapse, we are looking at a racial war. Well, nothing like that has happened"
JP Landman, South African consultant



Ngifenou shows off his wares in the Rosebank suburb of Johannesburg

erized by a tourist Web site as Johannesburg's "most cosmopolitan village," JP Landman, the consultant, reflects on this as he pulls up a slide of South African economic data on his laptop. Landman, 54, is in Malema's parlance a Boer, though he prefers Afrikaner, the name that South Africa's Dutch settlers gave themselves to show fealty to the African land they came to love.

Landman's politics couldn't be further from the white separatist views of Terre'Blanche. In the uncertain years before Mandela came to power, Landman and a majority of Afrikaners sided with the liberal wing of the National Party led by South Africa's last white President, F.W. DeKlerk. DeKlerk's job, in retrospect, was to negotiate the surrender of white power on as favorable and peaceable terms as possible. His negotiating partner was Mandela; both men won the Nobel Prize for peace in 1993.

My visit to Landman takes place two weeks after Terre'-Blanche's murder and a week after Zuma scolded Malema over his incendiary comments. "There was a time," Landman muses, "when an ambulance appeared before Parliament and the rand collapsed because people thought something had happened to Mr. Mandela." Now come Terre'Blanche's death and Malema's provocations, "and the chattering classes told us the country's going into an abyss, we're going to collapse, we are looking at a racial war," he says. "Well, nothing like that has happened—it's complete nonsense."

For Landman, the relative calm in the aftermath of the Malema affair reflects the reality of the new South Africa. The country has built up a reservoir of "social capital" that lets its citizenry absorb such shocks through spirited and even indignant discourse without violence. The explanation for the buildup of social capital is simple: "Cash flow" is the larger story of the South African economy's unblemished growth, says Landman. Even factoring in the 2009 recession, "per capita income still increased from 1994 to 2009 by about 27 percent," he says. "There is no question that the country is much richer than it was at the beginning of our democracy."

A November 2008 study by the Bureau of Market Research at the University of South Africa reported that the nation's black middle class, which had numbered in the low thousands in 1994, had swelled to 9.3 million by 2007, up more than a third over 2001 levels. The study defined middle-class as those 16 years and older with incomes ranging from about $10,000 to $18,000 a year—far above the South African average per capita income of $5,787 a year, meaning that millions of people have yet to cash in on democracy's economic promise. "Have we done enough to curtail the expectations that people have? No, I don't think so," says Landman. "That people are for now disillusioned is absolutely true. But is

KEN WELLS


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If you innovate, they will come.
In a recent Accenture survey, 89% of executives agreed that innovation is as important as cost management for high performance. But while many companies are investing more in innovation, only a few have a rigorous approach for managing the process. As a result, even innovative companies often fail to realize the benefits that their new ideas could produce. To see how our vast experience and research can help you maximize your return on innovation, visit accenture.com
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South Africa by the Numbers

Business in the Provinces

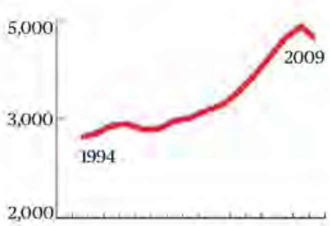


Major Economic Sectors

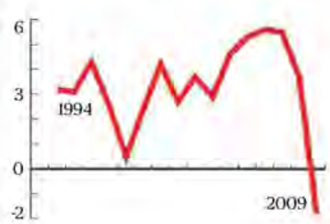
Farming	Banking	Mining	Tourism
Number of farms **39,982**	Banking sector assets **$440.3 bn**	Total mineral sales in 2009 **$32.3 bn**	2009 revenue **$27 bn**
Farm employees **796,806**	% controlled by 4 leading banks **84%**	Mining employees **460,000**	Visitors in 2009 **9.9 m**

GDP

Change in per capita GDP
($U.S.)



Change in GDP growth
(%)



Measuring Up to the BRICS

Per capita income
South Africa compares well in this category with the developing BRIC nations (Brazil, Russia, India, China)

2000	2010	2020
Brazil	Russia	Russia
Russia	S. Africa	S. Africa
S. Africa	Brazil	Brazil
China	China	China
India	India	India

Competitiveness index
It lags in the World Economic Forum's rankings of competitive economies.

	2009	% change
Brazil	56	+12
Russia	63	-12
India	49	+1
China	29	+1
S. Africa	45	unchanged

this an indication of South African failure? Absolutely not."

He adds: "A million South Africans will tell you that our roads have deteriorated—and yes, they have. But we've built schools and clinics where we never had them before. Slowly, we're doing what we have to do."

Venture into South Africa's heartland and you'll get an earful on Julius Malema—and reminders that the nation's racial progress depends more on a pragmatic black-white compact of mutual civility than on lofty ideals. Two hours by car southeast of Johannesburg, where the California-quality N3 Motorway meets a two-lane blacktop highway called R34, a stretch of spectacularly deteriorated road begins to show itself. This is the Highveld country of the South African province called the Free State: rolling rangelands, checkerboard cornfields, table-topped granite outcrops that look like the backdrop for a Clint Eastwood western. At one hilltop rise in the road, a herd of imposing white-faced, red Herefords graze under what is now a fall sun. Geologically, this big-sky land seems an odd cross between Kansas and West Texas hill country. Politically, it's the Deep South, a former bastion of the hard right of the Afrikaner political spectrum. About 30 miles east, dodging potholes that sometimes consume an entire lane, you come to the village of Vrede, a town that mirrors South Africa's larger story in many ways.

Pronounced FREAR-duh, the town of about 2,500 takes its name from the Afrikaans word for "peace." When I was last here 18 years ago, Vrede was segregated, its merchant class entirely white. About 18,000 blacks lived blocks away in the ramshackle township of Thembalihle, which, like most black townships then, existed without electricity, plumbing, or running water. With change in the air, Thembalihle's blacks, led by a young ANC agitator named Bheki Radebe, had launched a series of crippling boycotts against Vrede merchants—who had come to depend on black trade—as they fought for services, the right to swim in the town pool, and an end to housing segregation.

The mood was at turns tense and ugly, and grudgingly optimistic. Carel van den Heever, an Afrikaner merchant and entrepreneur who had invested much of his savings in a tourist lodge on a nearby lake, had bluntly put the aspirations of change-minded whites in perspective. The alternative was "a race war," he said at the time. "Blacks and whites can coexist here. We must—or else."

No race war came to Vrede. Instead, by key measurements—growth of a black middle class and a boom in the area farm economy—Vrede has prospered. The town's business district rises up along 10 blocks of Church Street, anchored at one end by a 19th century Dutch Reform sandstone church and a handsome white-and-green-roofed commercial building, constructed in the historic Cape Dutch style, that holds a sweets shop, a diner, and a grocery store. Many shop signs are still in Afrikaans, the antique Dutch spoken by those of Afrikaner descent.

On the open-air patio of a coffee shop, Pamela Rinke, an Afrikaner widow who owns an 850-acre cattle farm a few miles from town, says she vividly remembers the boycott years and is thankful they are long past. "Everything is all right in this area—we are all safe here," she says. "Well, watch the potholes. The roads are full of them."

The town, in her opinion, has borne its change with

SOURCES: STATISTICS SOUTH AFRICA; SOUTH AFRICA DEPARTMENT OF TOURISM; SOUTH AFRICAN RESERVE BANK; BRIC DATA COURTESY OF JP LANDMAN

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dignity. Most of the stores that were around in 1992 are still in business. The complexion has changed, however. Blacks, Indians, and Pakistanis own some of the stores and work in others. In Vrede's most popular bar, I saw three black workers from a nearby pipeline project flirting with an Afrikaner waitress—a scene unimaginable in 1992. For Rinke, who grew up in Zimbabwe but has lived here since 1981, the lessons of the past are that race relations need not be a lovefest so long as there is civility.

"What I learned was to keep quiet, greet everyone, be friendly to everyone. That's the main thing," she says. Although she now lives in town and her son runs the farm, where they keep 350 head of beef cattle, "the farmers are doing quite well." She adds: "There are some very rich farmers here." A government report shows that gross annual farm income nearly quadrupled from 1993 to 2007, to more than $11 billion.

On a sidewalk up the street, Jabu Lephoto interrupts his conversation with Norah Radebe, a clerk at a convenience store, to provide a slightly different take on Vrede farm life. The 28-year-old from Thembalihle works seven days a week as a ranch hand on a 370-acre cattle and sheep farm, getting a day off every other week. He earns 1,300 rand a month—about $190—but gets room and board. "Think of me as a cowboy," he says.

He was 10 when Thembalihle erupted in protests. He's grateful that it did. "Things are better for me," he says. "I think there has been progress." The owner of his farm is a white man from Pretoria. "He treats me with respect," Lephoto says. "He knows that when Jabu is on the farm, everything is right. I can arrange everything—planting, stock, herding, everything."

Lephoto says he has a plan—well, a dream. "I love to farm," he says. "I'm good at it. If I could do anything, I would be the boss of my own farm."

When I track down Carel van den Heever, I find him physically diminished from our meeting all those years ago. Once a smoker, he's now battling emphysema—he keeps oxygen bottles in his Mercedes-Benz station wagon, his bedroom, and his living room to help him through the bad spells, although he still speaks with the robust flourishes of the Afrikaner pitchman that he is at heart.

His resort burned down in 1994—an unsolved arson, "but it wasn't about race," he says. He was unable to rebuild. Later he

Eberhard and Young subsidize the Mlungu family's education





Soccer City, a super-stadium renovated for the World Cup

bought a cattle farm while continuing to unwind the real estate holdings that were part of his resort.

He has since sold the farm and his roomy house in town, moved into a smaller flat on a quiet street, and at age 73 has decided more or less to retire. Trading antique and collector cars keeps him busy. He's done well enough to buy an apartment on the coast where he and his wife will winter. Despite his personal troubles, van den Heever remains optimistic about South Africa—as long as the Malemas and the Terre'Blanches remain marginalized. "If you think about them," he says, "they are the same people—always agitating. Most blacks and whites want to live together in peace."

"I was an optimist then, and it worked out that way," van den Heever continues. He gestures toward his garden blooming with early fall roses. "Who lives there?" he says, pointing beyond a fence. "A black detective. Right opposite, a lady black dentist. Two more blacks live nearby. Here we are, living together."

"Do you remember Bheki Radebe, the ANC guy who was raising hell back then?" he continues. "Why, he became a Member of Parliament. He lives a block from me. We're friends now." Van den Heever stops, as if this history is startling even to him. Two years ago, when van den Heever's son died unexpectedly, "Bheki came from Pretoria especially to see me," he says.

I later track down Radebe by e-mail. He replies: "I am moved by the fact that you visited Vrede and saw all the challenges we are still facing and the way we a trying to resolve them. It is true that we are experiencing a high degree of racial harmony, which is built on genuine respect of each other and the fact that we have a shared future which must be protected at all cost."

Cape Town is the esthetic star of South Africa—imagine moving the natural granite monuments of Yosemite National Park into the city limits of San Francisco and perching them at just the right angle above the sea.

PHOTOGRAPHS BY BRENT STIRTON FOR BLOOMBERG BUSINESSWEEK (2)



Follow the road south, winding around the west side of fabled Table Mountain, and about 12 miles later you come to the residential community of Hout Bay. A hairpin local highway wends up the mountains, eventually leading to the gated house of Rolfe Eberhard and Sandy Young. Almost all whites in South Africa live behind gates, as do well-to-do blacks.

Eberhard, 47, and Young, 41, are multigenerational South Africans of Swiss and English descent. Both have doctorates. He's an infrastructure consultant, she teaches literature at the University of Cape Town. In college they were active in anti-apartheid student movements. They both voted for Mandela in the historic 1994 elections. Aside from 1997 to 2000, when they lived in New York City, where Young began a dissertation on colonial literature as a Fulbright Scholar, they have spent their lives in South Africa. They are raising their children, Anneke, 10, and Luke, 6, here.

The couple is thoroughly conversant in South Africa's challenges: crime, poor schools, a recent outbreak of anti-immigrant violence, political corruption. They recount headlines about black students outside of Cape Town who went on strike because their class size of 60-plus prevented anyone from learning anything. "It can be discouraging at times," says Eberhard.

They also know that somewhere between 500,000 and 1 million white South Africans, depending on whose statistics you believe, now live in Britain. Some have gone seeking opportunity; others have fled what Young calls "the more difficult aspects of being a young democracy." Crime is high on that list. The U.S. State Dept. still ranks South Africa as among the most crime-ridden nations on the African continent, reporting that it has "the highest incidence of reported rape in the world."

1m

Maximum estimated white South Africans living in Britain

Anecdotally, this outflow has slowed in recent years, though young professional whites are still leaving South Africa at a higher rate than they are returning. One impact has been a management shortage. "Think about it this way," says Allen Shardelow, a Johannesburg businessman: "If just 100,000 of these expatriates, college-educated, between the ages of 35 and 45, returned, that's the backbone of the management level of your economy."

Young and Eberhard are often asked by foreign visitors why they stay. Out their window, beyond a garden that covers a couple of acres, the mountains well up in gossamer light. Hiking and biking trails start near their backyard and run for miles through a vast green space that is part of the Table Mountain wilderness. The ocean lies two miles east, and South Africa's storied wine country is half an hour west by car. "This is a beautiful country," says Young. "We live that. We are into the mountains, trail running and hiking. It infuses the soul. I never get tired of it."

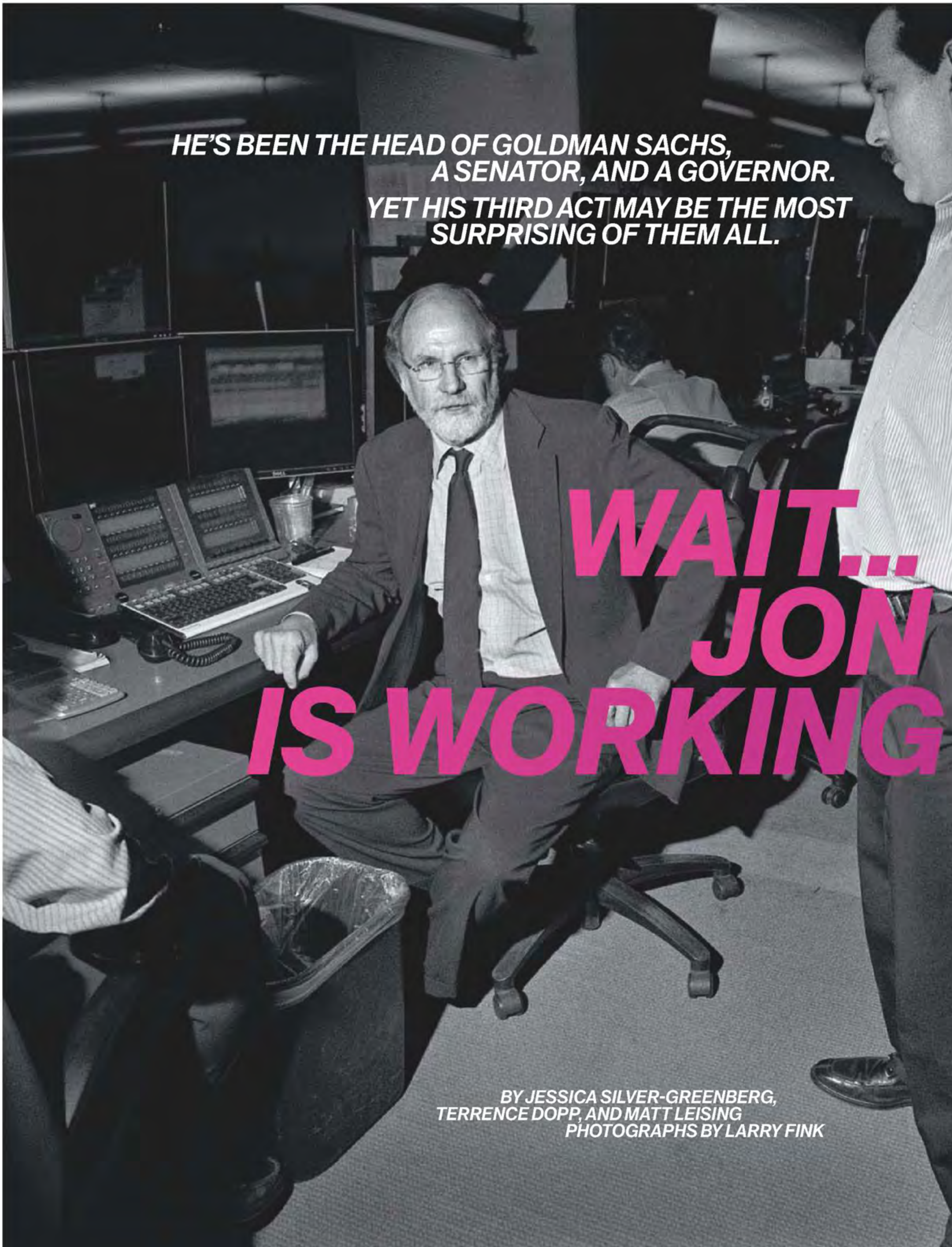
Between them, Young and Eberhard earn about $200,000 a year, allowing them to afford a comfortable lifestyle: a mortgage, private schools for their children, two serviceable if aging cars, in-country annual vacations, and a full-time housekeeper. "Anyplace else we move, and the economics of this just don't make sense," says Young.

A deeper bond, however, is a refrain I heard over and over among white South Africans of a certain sensibility. As Shardelow, the Johannesburg businessman, put it to me over lunch one day: "Where else can you contribute to the influence and growth of a nation in all aspects–economic, social, and political–by every single action that you do every day?"

For Young and Eberhard, this leads to an urge to give back. Even as they resisted apartheid, "we benefited enormously from apartheid educational policies," as did all white South Africans, Young says. They went to good, inexpensive public schools that prepared them for college and qualified them for scholarships. Blacks, meanwhile, were dumped into inferior public schools whose mission during apartheid was to teach them to be servants. Even when barriers fell, few blacks came out of that system ready for university.

For that reason, Young and Eberhard have been helping to raise 60,000 rand–about $8,500–every year since 2003 to support the educational ambitions of Pumeza Mlungu, their former housekeeper, and her two sons, Aphiwe, 12, and Anda, 11. Pumeza, 34, who came to them from the impoverished ramparts of the Eastern Cape unable to speak English, has since gone on to receive a high school equivalency diploma and last year obtained a Montessori teaching certificate. The Mlungus have moved to the leafy–and safe–southern Cape Town suburb of Kenilworth. She's now employed full-time as a teacher's aide while her sons go to a nearby Catholic school. Both, she says, are thriving at academics and athletics.

Ask her about the South African economy and she first will volunteer that Julius Malema does not speak for her. Instead, she sees a once unimaginable horizon–a bridge to South Africa's growing black middle class and perhaps beyond. "Anda is going to play soccer for South Africa, and Aphiwe wants to be an engineer," she says. "These are things that I think are possible that I never thought possible before." B
—*Nasreen Seria contributed to this article.*



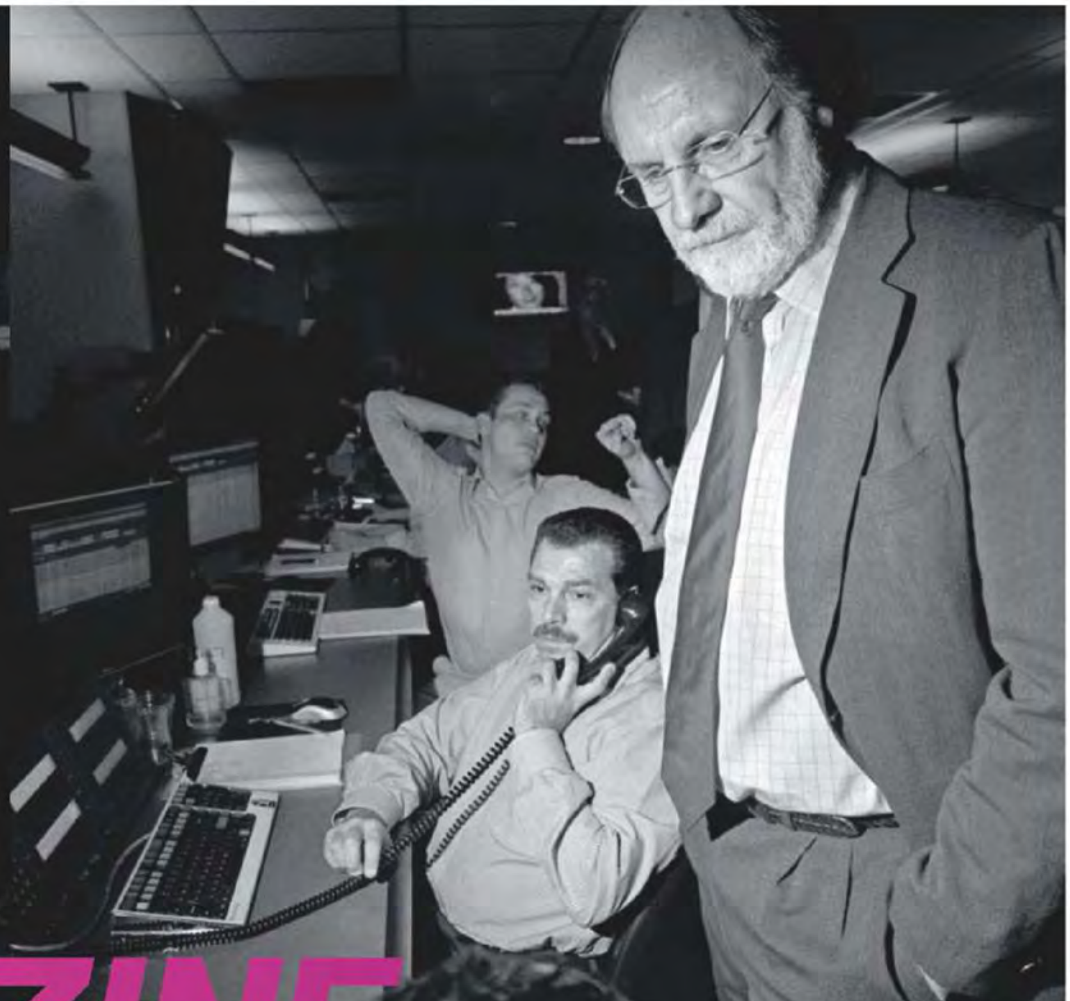
HE'S BEEN THE HEAD OF GOLDMAN SACHS, A SENATOR, AND A GOVERNOR. YET HIS THIRD ACT MAY BE THE MOST SURPRISING OF THEM ALL.

WAIT... JON IS WORKING

BY JESSICA SILVER-GREENBERG, TERRENCE DOPP, AND MATT LEISING
PHOTOGRAPHS BY LARRY FINK

CORZINE WHERE?







"First of all, I like to work," says Jon S. Corzine, in his new office on Fifth Avenue in Manhattan, explaining why he took the job as chief executive officer and chairman at a little-known derivatives trading firm called MF Global. "Second, I have generally worked in large institutions where I didn't have the same entrepreneurial opportunity that MF provides. It may not be a startup, but if you have a long-term view of building a competitive financial institution of excellence, this is an extraordinary vehicle to try and get at that opportunity. It's in the part of the world that I have some experience and knowledge of, so I don't feel uncomfortable...." Corzine pauses, then adds, "A little dated, but we'll get caught up."

Two of the last three jobs Corzine held did not end well for him. As chairman of Goldman Sachs in the late 1990s he lost a power struggle with his co-CEO, Henry Paulson. He rebounded with a successful, self-financed bid for the U.S. Senate from New Jersey and quickly established himself as a major Democratic rainmaker before leaving to run for governor. Helping the state dig out of a fiscal hole was to be his legacy, but budget problems only deepened in a bitter first term, and he lost last November, tripped up by Republican challenger Chris Christie.

Now Corzine, 63, is trying to steady his career by remaking MF Global. The 3,200-strong firm, recently beset by a trading scandal and bad luck, specializes in options and futures, which Allan Zavarro, the former global head of futures trading for ABN Amro Bank, describes as "a bastard stepchild. It's a coup for MF to get a guy of that quality who wants the job."

Corzine received a signing bonus of $1.5 million and will get the same amount in annual salary, with a bonus target of $3 million. For a man who left Goldman Sachs with a fortune estimated at over $400 million and then spent $134 million of it on politics, money matters, as does the opportunity to play the savior and redefine his legacy. "He clearly wants to be remembered for something other than a frustrating time in New Jersey politics," says Jeff Tittel, director of the New Jersey Sierra Club, a former ally of Corzine's.

Corzine started as a bond trader at Goldman in 1975. The work ethic he learned on his father's 120-acre farm in Willey Station, Ill., helped push him to the front of his class, and by 1985 he was co-head of the fixed income desk at the firm and was made partner. At his 25-year high school reunion, he ran into William Summer, a friend since grade school. "I remember asking him if he did a lot of traveling, and I asked him if he learned any languages," says Summer, a San Diego-based financial executive. "He said he spoke the language of money, and that's all he needed."

Even as he climbed the ladder at Goldman, Corzine distinguished himself as friendly and unassuming. "Everybody wants to be Jon's friend," says Barry L. Zubrow, chief risk officer at JPMorgan Chase, who was chief administrative officer at Goldman and served in Corzine's Trenton administration. "He has a unique ability to make everyone feel like they are his best friend." Among those he got along with well was current Goldman Sachs CEO Lloyd Blankfein. Corzine was "absolutely part of Blankfein's meteoric rise" within the company, says Janet Hanson, a former co-head of money-market sales in New York at Goldman.

When Corzine ascended to chairman in 1994, Goldman was in the throes of a panic the likes of which it has rarely experienced in its 141-year history. That spring the firm had suffered a $300 million trading loss, and when Chairman Stephen Friedman left, more than 30 partners departed as well. "Corzine could uniquely assure people that Friedman's exit wasn't indicative of larger failures to come," says Noreen Harrington, who joined the firm as a trader in 1987 and became a managing director (she left in 2002).

After stabilizing the firm, Corzine positioned Goldman as a leader in market advisory and underwriting, leading to a central role in the $38 billion marriage of Chrysler and Daimler-Benz. Deals like that helped Goldman rack up $3 billion in profits in 1997. In June 1998, Goldman announced it would be going public, an epochal event in the history of Wall Street. Corzine, however, wouldn't be around to see it happen. In August a hedge fund called Long-Term Capital Management began to unravel, exposing the financial system to disaster with leveraged bets it couldn't cover. Wall Street banks had to rescue the firm to avert a sell-off that might have taken them down too, and Corzine ended up committing $50 million more than his board had authorized. Making matters worse, Goldman had more than $1 billion worth of losses on bets similar to LTCM's. "The losses in trading gave partners fodder to help push out Jon," says Harrington. "They saw trading as far too risky."

In September, Goldman announced that the initial public offering was off. Meanwhile tensions were mounting between Corzine and his No. 2, Paulson. In May 1998, Corzine floated the idea that the two join forces as co-CEOs, a proposal Paulson accepted. But the two could not co-exist at the top. "They were polar opposites in so many ways," says Harrington. "Paulson likes fly fishing and watching birds, and Corzine likes basketball and downhill skiing. If Jon said black, Paulson said white."

In his recent memoir, *On the Brink*, Paulson writes: "I concluded I could not continue to work with Jon as co-CEO. I secured the support of our management committee, and in early January 1999, Corzine's friend and protégé John Thain, then our CFO, went to talk with him. Then I followed and told Jon that he would need to step aside. 'Hank,' I remember him saying, 'I underestimated you. I didn't know you were such a tough guy.'" Paulson didn't respond to calls.

While Corzine was on a family ski vacation in Colorado, the committee stripped him of his co-CEO title. Goldman announced his departure on Jan. 11, 1999, and the bank went public four months later, raising $3.66 billion.

"I think it's fair to say he was really hurt by it, but look what he went on to do," says Hanson. "He just dusted himself off, and said, O.K., next thing."

A month after walking out the door at Goldman Sachs for the last time, Corzine announced he was running for the U.S. Senate from New Jersey; at the time, he and his wife owned a house in Summit, where they had raised their three children. He spent $62 million of his own money to defeat the Republican candidate, Representative Robert D. Franks, and in January 2000 started life as an elected official.

Corzine's Wall Street connections were valuable to the Democratic Party, and he was tapped in December 2002 to head the Democratic Senatorial Campaign Committee, which spent $88.3 million to win the Senate back from Republicans in 2004. Corzine's effort netted one seat: Barack Obama from Illinois.



Clockwise from top: Goldman co-CEOs Corzine and Paulson in 1998; after winning the New Jersey Democratic Senate primary, with then-wife, Joanne, and son Joshua, 2000; the governor's inaugural ball, 2006; at Newark Penn Station, brandishing a bill signed into law providing development money to the state, 2009

CLOCKWISE FROM TOP LEFT: AP PHOTO; MIKE DERER/AP PHOTO; JOSE F. MORENO/AP PHOTO; CHRIS HONDROS/GETTY IMAGES

Corzine didn't stay in the Senate long. Already in his fifties, he says he was too impatient to play the seniority game and leapt at the chance to grab executive powers. After James E. McGreevey's midterm resignation, Corzine successfully ran for governor—this time spending $43 million in personal funds—and vowing to use his Wall Street experience to repair the state's finances. He scored some wins for a self-described Sixties liberal, adding children to state-run health-care programs, expanding access to preschool, leading the effort for a family-leave law, and abolishing the death penalty. It was the missteps that stuck with voters, according to New Jersey Senate President Stephen M. Sweeney, particularly Corzine's proposal to pay down the state debt largely by raising highway tolls 800 percent. Commuters hated the idea. Determined to persuade voters of his logic, he scheduled public forums in each of the state's 21 counties, complete with a 40-minute slide show. "That was like wearing a sign on his back that says 'Kick me' 21 times,'" says Sweeney. "Jon's one big struggle was that he was looking at things through a business mind rather than politically. You have to look at the realities of government and what you can get done, then come up with the best plan you can. At times, he just didn't get it."

Even fellow Democrats had difficulty relating to Corzine. "When you were talking to him about New Jersey politics, you had to reach him sometimes through the glaze," says Robert G. Torricelli, former U.S. Senator from New Jersey. "I don't think he emotionally or intellectually ever fully left the financial world."

His personal life became an issue, too. In the midst of his run for governor, his ex-wife Joanne famously said: "Jon did let his family down, and he'll probably let New Jersey down, too." Then, while governor, Corzine refused Republican demands that he make public e-mail exchanges he had with Carla Katz, a state-employees union official whom he had previously dated. They weren't romantically involved by the time he became governor, but during his term the media reported that he had given her millions of dollars in a settlement that formally ended their relationship. "Here in the state people would say he's a multi-millionaire who bought a U.S. Senate seat, the governorship, and threw millions of dollars at a girlfriend," says Richard J. Codey, former president of the New Jersey Senate. "It's hard to claw your way back from that."

His tenure as governor was further hindered when he cracked eleven ribs and broke his leg and sternum in a car accident. He wasn't wearing a seat belt.

The New Jersey budget deficit stood at a record $8 billion when voters ousted him in 2009. Corzine left with a 58 percent disapproval rating, according to Fairleigh Dickinson University's PublicMind Poll, the highest ever in the state for a departing governor.

Corzine speaks now of his political career as if it happened to someone else. There is no perceptible emotion in his voice and no sense of grievance. "The argument that people in public life never get anything done and don't actually confront real problems is one that has occasional merit," he says, "and when you do confront problems and take them on, people might argue you are too aggressive, tone deaf, or out of touch. If you have a state that is deep in debt, it should continue to invest in the education of its children and its infrastructure but take on its financial shortcomings. Sometimes just doing what is comfortable and tone-sensitive might not be the best plan."

He professes pride at what he accomplished as governor and some regret that those accomplishments have been obscured. "It's clear that I could not develop a popular mandate around the toll plan, and it became very easy to make that into a basis of assessing my whole tenure," he says. "There were a lot of other good things which people might not be focused on. We had a child welfare system that was broken. I could go on."

The situation at MF Global promises plenty of fresh headaches. The firm was spun off from Man Group in an initial public offering in 2007 on the same day that two Bear Stearns hedge funds collapsed. Seven months later, MF Global disclosed that a trader in Memphis, since indicted on criminal charges, had lost $141.5 million on unauthorized bets on wheat futures, and the stock sank 28 percent in a day. Profits were squeezed last year by a drop in trading volume, and shares, which topped $30 at the end of 2007, are stuck this year around $7. The private-equity firm JC Flowers, run by Chris Flowers, an old friend from Goldman Sachs, bought a $150 million minority stake in the firm in 2008. The next year, MF Global started an application for a primary dealer license, which would enable it to trade directly with the Federal Reserve. This is a ticket to a club whose 18 members include Goldman, Citigroup, and Bank of America and put the firm in position to attract a leader with big-league Wall Street credentials, like Corzine. News of his appointment as CEO in March, which included his installation as an operating partner at JC Flowers, sent shares up 10.4 percent in a single day. "The market sees him as a transformational leader," says Ed Ditmire, an analyst with Macquarie Group in New York.

Some analysts doubt that Corzine, 11 years removed from Wall Street, can pull off the massive rescue MF Global needs, including salvaging its damaged reputation and recruiting talent in a very competitive environment. "We have no evidence that when a Goldman Sachs star leaves, they take the Midas touch with them," says Robert Brusca, president of Fact & Opinion Economics and former chief of the New York Fed's International Financial Markets Division. "It shows MF Global has a commitment to growth, but it's like a basketball team that brings in one high-paid coach. While that might help, it's going to be the team, not the coach, that leads to a successful season. I am skeptical of what Corzine can reasonably deliver."

Being underestimated is nothing new to Corzine, say his friends. It's part of what motivates him. When he announced his bid for the Senate, says Daniel Neidich, co-CEO of Dune Capital Management, "I had senior Wall Street guys say that he had so little chance of winning that they were embarrassed for him. And then he went and won." B



Forest Laboratories' Globe-Trotting Profits

From New York to Dublin, through Amsterdam to Bermuda—how one pharmaceutical company avoids a third of its U.S. income taxes by moving its money around the world

By Jesse Drucker

With a swipe of his debit card in a Phoenix pharmacy, Tyler Hurst bought a $99 bottle of Lexapro and kicked off a 9,400-mile odyssey of international corporate tax avoidance. Each stop along the way—an industrial park in Dublin, a skyscraper in Amsterdam, a palm-shaded law office in Bermuda—helps the medicine's maker, Forest Laboratories, cut its income tax bill. Although all of Forest's Lexapro sales are in the U.S., the company moves profits generated by the world's third-best-selling antidepressant from subsidiary to subsidiary overseas, exploiting tax advantages in multiple countries. The technique, known as transfer pricing, reduced Forest's net U.S. tax bill by more than a third in 2009, according to the company's annual report.

Forest declined to discuss its transfer-pricing techniques. Nor would it say how much it made from the $99 that the Phoenix customer paid for his month's supply of Lexapro. For top-selling prescription drugs, the retailer would keep about $12, and $2 would go to a wholesaler, says Helene Wolk, an analyst at Sanford C. Bernstein in New York. The remaining $85, she says, would go to Forest. Since its debut in 2002, Lexapro has generated $13.8 billion in sales for Forest, according to analyst Gary Nachman of Leerink Swann in New York. The drug accounted for 58 percent of Forest's sales for the fiscal year that ended on Mar. 31.

Thousands of other companies, from Oracle to Eli Lilly to Pfizer, also legally avoid some income taxes by using transfer pricing, typically converting sales in one country to paper profits in another, often a place where they have few employees or actual sales. GlaxoSmithKline, the U.K.'s largest drugmaker, settled a transfer-pricing case with the U.S. in 2006 for $3.4 billion. Since December, the IRS and the Justice Dept. have lost two such cases against Silicon Valley companies: a $24.3 million dispute with chipmaker Xilinx and a $545 million battle with software maker Symantec.

In February the Obama Administration, which faces a projected budget deficit of $1.5 trillion this year, said it would target some transfer-pricing techniques as part of a crackdown intended to raise $12 billion a year over the coming decade. That's one-fifth of the estimated $60 billion in U.S. tax revenue lost to transfer pricing each year, according to a study by Kimberly A. Clausing, an economics professor at Reed College in Portland, Ore. By 2009, U.S. companies amassed at least $1 trillion in foreign profits not taxed in the U.S., according to data compiled by Bloomberg. That cumulative figure, based on filings by 135 companies, has increased from $590 billion in 2006, up 70 percent. Part of the increase is the result of growing sales abroad; much of it springs from expanded use of transfer pricing, says Martin Sullivan, a tax economist and writer who has worked for the Treasury Dept. and Arthur Andersen.

Senator Carl Levin (D-Mich.), the chairman of the Senate Permanent Subcommittee on Investigations, calls transfer pricing "the corporate equivalent of the secret offshore accounts of individual tax dodgers." Senator Byron Dorgan (D-N.D.) calls for scrapping the IRS rules that allow this "unbelievable scandal." Enforcement of these rules, according to Dorgan, is impossible. "It's the equivalent of asking the Internal Revenue Service to connect the ends of two different plates of spaghetti."

It's about 2,100 miles from Phoenix to Forest's corporate headquarters on Third Avenue in New York. Those headquarters are the first stop for the estimated $85 the company took in from that Lexapro purchase in Phoenix, though definitely not the last. Next the money moves 3,200 miles east to Ireland, where workers in lab coats and goggles make and test Lexapro in a low-slung factory near a soccer field on Dublin's north side. A rock the size of a Smart car rests beside the parking lot, inscribed with one word in bright blue letters: Forest.

This subsidiary—called Forest Laboratories Ireland—sells Lexapro to its U.S. parent, according to Dan L. Goldwasser, a Forest board member and attorney with Vedder Price in New York. This transaction is at the heart of transfer pricing. With each tablet Forest buys from its Irish subsidiary, it shifts profits to Ireland, where corporate income is taxed at rates of 10 percent to 12.5 percent, compared with 35 percent in the U.S. "Part of the object is to generate some of the profit in Ireland," Goldwasser says. The company won't disclose what it pays the Irish subsidiary for Lexapro or other medications made there.

Forest's Irish operation employs about 5 percent of the company's 5,200 workers, yet it reported $2.5 billion in sales during fiscal 2009—equal to about 70 percent of Forest's $3.6 billion in net sales. Lexapro alone generated $2.3 billion in revenue in 2009, according to company filings. Scores of U.S. pharma and tech companies have set up similar operations in Ireland, lured by an educated workforce, access to European markets, and low taxes, says Alan Mahon, a spokesman for the Irish Finance Dept. "Ireland's 12.5 percent corporation tax rate has become an international 'brand,'" he says.

In 2007 the IRS challenged Forest's transfer pricing, claiming the company didn't adequately value its U.S. marketing operations and thus allocated too much profit to its low-tax Irish subsidiary, according to a person familiar with the matter who asked not to be identified because he wasn't authorized to discuss it publicly. The dispute involved profits from another antidepressant, Celexa, in 2002 and 2003, according to the person and SEC filings by Forest. The IRS sought an additional $206.7 million in taxes, according to the company's disclosures. In November, Forest said it had agreed to pay an undisclosed amount that "did not have a material impact" on its results.

By the time the IRS went after Forest for its tax treatment of Celexa, the company had found a way to further reduce its Irish income taxes—by sending most of its profits on a 3,200-mile trip from Ireland to Bermuda.

On advice from Ernst & Young, Forest Laboratories Ireland reorganized in 2005, dropping Ireland from its name. The newly dubbed Forest Laboratories Holdings established a registered office in Hamilton, Bermuda, and declared the island as its tax residence. This unit took control of licensing the patents.

A second Irish subsidiary inherited the old name. It handled the manufacturing and sublicensed the rights to the patents, according to a corporate disclosure and an internal Forest flow chart tracing the arrangement that was reviewed by Bloomberg News. International tax planners have a nick-

Lexapro's Long, Strange Trip



1. Phoenix

Tyler Hurst purchases a prescription of Lexapro for $99 at a Phoenix Walgreens. The money heads east.

2. New York

Forest Laboratories, the maker of Lexapro, is headquartered in New York City. While all of the company's sales of Lexapro are in the U.S., most of the profits end up with an Irish subsidiary. The pills are purchased from the Irish subsidiary and distributed throughout the U.S.

3. Dublin

A subsidiary called Forest Laboratories Ireland manufactures and sells Lexapro to its U.S. parent. This lets Forest legally shift most profits from the U.S. to Ireland, avoiding a 35 percent U.S. corporate income tax. To reduce its tax bill even further, the manufacturing unit's corporate cousin, Forest Laboratories Holdings, registered an office in Hamilton, Bermuda, declaring the island its tax residence.

4. Amsterdam

Forest avoids a 20 percent Irish withholding tax on payments it sends to Bermuda by first paying another subsidiary, Forest Finance in the Netherlands. Forest Finance then pays the office in Bermuda. By going to another European Union member state first, the withholding tax is avoided.

5. Bermuda

An Irish manufacturing unit of Forest pays the Bermuda office to sublicense Lexapro's patents. Those payments move the taxable profits out of Ireland and into Bermuda. This maneuver helped cut Forest's Irish income tax rate from 10.3 percent the year before to 2.4 percent the year after.

Bottom Line

Tax dollars that could be paid to the U.S. on profits generated by a product sold entirely in the U.S. are significantly reduced. Income taxes in Ireland are largely avoided. Technically, the U.S. taxes are deferred until the company brings the offshore profits back home to the U.S. But American companies rarely repatriate significant portions of that income.

1/3

Net reduction in Forest's U.S. tax bill in 2009 due to transfer pricing

SOURCE: FOREST LABORATORIES ANNUAL REPORT

$13.8 Billion

Lexapro sales since the drug's 2002 debut

SOURCE: ANALYST GARY NACHMAN OF LEERINK SWANN IN NEW YORK

Cumulative total of foreign profits, for 135 U.S. corporations, not taxed in the U.S. through 2009, up 70 percent since 2006

$1 Trillion

DATA COMPILED BY BLOOMBERG BASED ON FILINGS BY 135 COMPANIES

Forest's share of reported 2009 sales that were in the U.S.

98%

25%

Forest's share of reported 2009 pretax profits that were in the U.S.

SOURCE: FOREST ANNUAL REPORT

name for this type of structure: the Double Irish. The structure helped Forest's Irish subsidiary cut its effective tax rate to 2.4 percent from 10.3 percent the year before the reorganization, according to its annual reports. It did so by deducting from its taxable income the fees that went to Bermuda, which has no corporate income tax. Ernst & Young declined to comment on its work for Forest.

Forest's profits, however, don't fly directly from Ireland to Bermuda. To avoid yet another Irish tax, they first make a 470-mile detour to Amsterdam.

Fees paid to the Bermuda unit pass through another subsidiary, Forest Finance BV in the Netherlands, according to the internal Forest document, Dutch corporate records, and a person familiar with the transaction. That route bypasses a 20 percent Irish withholding tax on certain royalties for patents, according to Richard Murphy, director of Tax Research, a British forensic accounting and research firm, who has worked on similar transactions. The structure takes advantage of an exemption on that tax if payments go to a company in another European Union member state.

Forest established its Dutch company in July 2005, two months before its Irish subsidiary got permission from Bermuda regulators to conduct business. The Amsterdam unit operates largely as a conduit, records show. In 2007, Forest Finance collected $1.19 billion in licensing income and paid out 99.6 percent of it in licensing expense, according to its annual report. The company lists its office at an Amsterdam building used by Fortis Bank Nederland, a lender nationalized in 2008 by the Dutch government. Forest has no employees there, said a receptionist at Intertrust, a business that manages financial records for companies. The receptionist wouldn't give her name. Intertrust was sold in January by Fortis Bank to a private equity firm.

The Netherlands has more than 13,000 such entities "established by foreign multinational corporations for the purpose of channeling financial assets from one country to another," according to reports by the Dutch Central Bank. More than 12.3 trillion euros ($15.5 trillion) flowed in and out of them during 2008, the Dutch Central Bank said.

Forest's income tax savings from international operations almost doubled after its 2005 reorganization. In fiscal year 2007 its effective tax rate dropped by 21.8 percentage points, or $155 million, because of the effect of foreign operations, according to U.S. securities filings. In 2009 the international tax benefits lopped $183 million off Forest's federal income tax bill, and helped drive its effective tax rate down to 20.9 percent, compared to the federal statutory rate of 35 percent. The benefits boosted Forest's net income in 2009 by 31 percent, according to an analysis of its tax footnotes by Robert Willens, president of a consulting firm that advises investors on tax issues.

Although Forest described its Bermuda office as the Irish subsidiary's "principal place of business" in a 2008 court filing, it has no employees on the island. The closest it comes to a presence is its registered office at Milner House, a beige building nestled among the pastel structures of Hamilton, the island's main commercial area. There, Coson Corporate Services, part of law firm Cox Hallett Wilkinson, provides "corporate administrative services" for Forest Laboratories Holdings, according to Jeannette Monk, the firm's corporate administrator. Asked whether Forest had any employees there, she said, "This is a law firm."

It's also the final port of call for about two-thirds of the profits Forest derived from sales of Lexapro and its other drugs in 2009. U.S. corporations can avoid taxes on such overseas profits indefinitely, unless they decide to bring the earnings back home.

The potential tax liability doesn't count against income in reports to shareholders, says Michelle Hanlon, an associate professor of accounting at Massachusetts Institute of Technology's Sloan School of Management. So lower taxes from earnings kept overseas go straight to the bottom line, she says, and U.S. companies rarely repatriate significant portions of that income. They are permitted to use the income in overseas operations or in certain investments, or to simply let it sit as cash in a bank account, says Hanlon.

An exception came in 2004 when Congress enacted a one-time break allowing companies to bring back their earnings at an effective tax rate of 5.25 percent, less than one-sixth the top corporate rate. As a result, 843 corporations brought $362 billion to the U.S., with $312 billion qualifying for the tax break, according to the IRS. Under the provision, Forest returned $1.2 billion to the U.S.

U.S. tax laws have sought to regulate various forms of transfer pricing since 1921. The Treasury Dept. issued regulations limiting it in 1968, and thousands of pages have followed in the years since. The tax code was amended in 1986 because of concern that companies were shifting profits from the U.S. None of it eliminated aggressive transfer pricing.

For U.S. regulators, the key questions are whether the parent pays too much to its offshore subsidiary and whether the subsidiary in turn pays too little to its U.S. parent. Treasury regulations require "arm's length" prices, or amounts that would be paid between unrelated parties.

Those rules are "based on a fiction," says Michael C. Durst, special counsel at Steptoe & Johnson in Washington, who advised companies on transfer pricing for 15 years and has emerged as a vocal critic of the system. Many of the transactions between a U.S. parent and its offshore units would never take place between unrelated parties, Durst says. "As a result of resting on this basic fallacy," says Durst, "transfer-pricing rules have for many years been unenforceable."

On Apr. 15 the IRS said it would add new agents, attorneys, and economists to ensure that companies are following the rules for transfer pricing. It is difficult to say whether the offensive will have any effect on Forest. The IRS's goal is to flood the zone on a handful of big corporations—it's not clear which. For now, at least, every time an American walks out of a pharmacy with a bottle of Lexapro, Forest launches another perfectly legal transatlantic journey of tax avoidance.

"If multinationals cannot be prevented from shifting profits to low-tax jurisdictions, then it becomes impossible to maintain the domestic corporate tax base," says Reuven S. Avi-Yonah, director of the international tax program at the University of Michigan Law School. If that bleeding can't be stanched, he says, "we might as well abandon the income tax." B

—With Phillip Cruz, Dara Doyle, Fred Pals, Lisa Rapaport, Marybeth Sandell, Carey Sargent, Shelby Siegel, and Martijn van der Starre

Eclectic Electrics

With the Chevy Volt and Nissan Leaf hitting showrooms this year, the mass-produced electric car —a century-old dream—becomes a reality. So what are designers dreaming up next?
By Richard McGill Murphy

Electric car designers, *The New York Times* reported, "have made great advances in the past few years." That was written in 1911–the same year Thomas Edison announced a battery that could propel a car 60 miles on a three-minute charge. A century later, we're still waiting for Edison's miracle battery, and electric vehicles still cover less ground for more money than their gasoline-powered counterparts.

Progress is finally–really–around the corner. By late next year six major auto manufacturers will be selling plug-in hybrid or all-electric vehicles. General Motors' Chevy Volt (expected sticker price: $40,000, minus $7,500 in federal tax credits) will run for 40 miles in all-electric mode before a gasoline-powered generator kicks in. Its price is expected to come down over time because GM is reducing shipping costs by moving battery production from South Korea to Michigan, and because of competition. When Nissan's Leaf hatchback goes on sale in December, the four-door, 100-mile-per-charge car will list for around $32,500 before tax credits, making it the most affordable full-size electric vehicle yet. A price war could be just the thing to drive broader EV acceptance.

For now, and until the inevitable consolidation takes hold, the EV market looks a lot like the auto industry in the days before the Model T. Without the economic and engineering constraints of mass production, dozens of small players are coming up with freewheeling designs, from narrow one-seaters made to snake through traffic to a line of, rechargeable, folding vehicles. The cars featured on these pages are just a sampling of the creative industrial design bubbling up from Cambridge to California to Malaysia.

Energy economics still favor internal combustion, and none of these designers can change that. U.S. gasoline prices may need to reach $6 a gallon before plug-in hybrids become cost-effective, according to a 2008 study by Duke University's Center on Global Change. Public charging points are scarce, and 40% of U.S. consumers lack a charging station near their vehicle at home, the Government Accountability Office reported in June 2009. As for arguments about environmental priorities, electric vehicles are only as green as the plants that generate their power. Nearly 70% of electricity in the U.S. grid comes from coal and natural gas, with only 9 percent from renewable sources like hydro, solar, and wind. "Electric cars are the Next Big Thing and always will be," says Robert Bryce, author of *Power Hungry: The Myths of "Green" Energy and the Real Fuels of the Future.*

Even skeptics like Bryce acknowledge that electric vehicles make more economic sense in urban environments where speeds are low, distances short, and potential charging points plentiful. The case for electric mobility looks even stronger when you consider that half of humanity lives in cities and that urbanization is expected to accelerate in coming decades. Civilization may not declare independence from petroleum this year or next, but with cars like these on the way, electric dreams are sweeter than ever.

Sensible alternatives, out this year

Chevy Volt	Nissan Leaf
Developed by: General Motors	**Developed by:** Nissan
Expected release date: Late 2010	**Expected release date:** Late 2010
Years in development: 4	**Years in development:** 4
Special feature: 40-mile battery range supplemented by onboard gas generator	**Special feature:** Laminated lithium-ion battery pack delivers estimated 100-mile range
Number of passengers: 4	**Number of passengers:** 5
	





Tango

Developed by: Commuter Cars
Release date: July 2005 (first car sold to George Clooney, 10 have been sold since)
Years in development: 10
Special feature: Snakes through heavy traffic
Number of passengers: 2

A freeway-ready EV that goes from zero to 60 in less than four seconds and reaches a top speed of 135 mph, the Tango is about the width of a Harley-Davidson. Inventor Rick Woodbury spent more than 10 years developing the Tango in his spare time while he ran a successful textbook business. Today, Commuter Cars has sold 11 vehicles for about $150,000 each. Prices will drop if the Tango enters mass production, but that requires significant capital. With $150 million in funding, Woodbury says he could build 30,000 cars over two years and sell them for $29,000 apiece with a 50% profit margin.











Zap Alias

Developed by: Zap Electric Vehicles
Years in development: 3
Expected release date: Late 2010
Special feature: Three wheels
Number of passengers: 3

Since the early 1990s, Santa Rosa (Calif.)-based Zap Electric Vehicles has been distributing scooters, vans, and other specialty EVs from overseas manufacturers. The sleek, three-wheeled Alias, set for release later this year, will be Zap's first original model. Zap claims it will go from zero to 60 in 7.8 seconds, with a top speed of more than 75 mph and a range of 100 miles. Although Zap has promised EVs that didn't materialize in the past, the Alias qualified for the third round of the 2010 Progressive Insurance X-Prize, a $10 million competition for next-generation EVs.



EN-V

Developed by: General Motors, Segway **Years in development**: 2
Expected release date: 2030
Special feature: Balances on two wheels; zero turn radius.
Number of passengers: 2

One-sixth the size of a conventional car, this twin-wheel, two-seat concept vehicle is powered by wheel-mounted electric motors that also serve as brakes. Jointly developed by GM and Segway, the EN-V (short for Electric Networked Vehicle) incorporates GPS-based wireless network technology and sensors to drive itself and avoid obstacles. GM unveiled the prototype at this year's New York Auto Show but doesn't expect it to be commercially available until 2030.

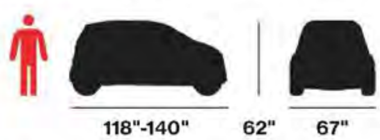


VOLT: GM CO.; LEAF: NISSAN; TANGO: COMMUTER CARS (2); ALIAS: ZAP; EN-V: GM CO.; EMAS: ITALDESIGN GIUGIARO ARCHIVES; CITYCAR: WILLIAM LARK, JR., MIT MEDIA LAB, SMART CITIES

EMAS

Developed by: Italdesign Giugiaro for Malaysian automaker Proton
Years in development: 5+
Special feature: Advanced plug-in hybrid drivetrain from Lotus Engineering
Expected release date: N/A (concept only)
Number of passengers: Four-seat hatchback, five-seat hatchback, 3+1 seat for city driving

Malaysian automaker Proton recently unveiled three concept cars based on the Lotus plug-in hybrid drivetrain. They include a three-door compact for city driving and four- and five-seat hatchbacks. Proton has sold 3 million vehicles in Asian markets, and these cars could help green the Pacific Rim if they enter production.





Emas means "gold" in Malay

CityCar

Developed by: Smart Cities Group, MIT Media Lab
Years in development: 7
Expected release date: 2013 or beyond
Special feature: Folding frame, omidirectional "robot wheels"
Number of passengers: 2

This folding, two-seat electric vehicle currently exists only as half-scale prototypes built by student researchers at MIT's famed Media Lab. It folds because it has no central engine or power train; instead, electric motors housed in the wheels provide power and regenerative braking. Lead designer Bill Mitchell, an architect and urban planner who heads MIT's Smart Cities research team, sees a future in which "swarms" of CityCars travel together like birds or fish, automatically positioning themselves at a set distance from their neighbors.



Front entry from curb



PANAMA Happening Now



Recently awarded a prized investment grade rating, Panama is shaking off its tax haven image and powering ahead as the business-friendly government transforms the country into a thriving international investment hub.

With an enviable strategic location at the heart of the Americas and home to the world's most important marine route between the Pacific and Atlantic Oceans, Panama is a dynamic and developed country with a diversified and transparent economy.

Political and social stability combined with strong growth in key sectors like financial services and tourism have propelled the ambitious country into the international spotlight.

Despite the global downturn, Panama was one of the few nations in Latin and Central America to enjoy economic growth in 2009, with GDP up 2.4% year-on-year. This impressive rise amid turbulent conditions was a key factor in Panama being awarded an investment grade rating on its debt.

In March 2010, Fitch Ratings lifted the country's credit rating from BB-plus to BBB-minus in a move that saw it achieve the same investment grade status as the economic powerhouses Mexico, Brazil, Chile and Peru. Highlighting the reasons for its decision, Fitch Ratings explained: "The upgrade reflects a sustained improvement in public finances, underpinned by recent tax reforms, and the economy's resilience to the global financial crisis and associated recession."

The upgrade is certain to help Panama in its bid to secure a free trade agreement with the United States. The free trade agreement has been approved by Panamanian officials, but not by their U.S. counterparts. The two countries share more than political and historical ties, with Panama using the U.S. dollar as its currency, and many U.S. companies locating their manufacturing bases and call centers there to take advantage of a range of tax and fiscal incentives. Foreign direct investment (FDI) opportunities exist across the entire spectrum of the predominantly service-based economy, with fiscal growth being fueled further by the showcase Panama Canal expansion project. Due for completion in 2014, the U.S.$5.3 billion project is expected to double the famous canal's capacity, allowing it to accommodate even larger container ships and cruise liners.

A former captain of retail and industry, President Ricardo Martinelli has been one of the driving forces behind Panama's impressive socioeconomic development, using his precious knowledge and skills in the role of Minister of Canal Affairs and Director of the Social Security Administration before being elected President in July 2009.

As head of state in the country of 3.4 million people, Martinelli has been pushing through a series of major tax reforms and trade regulations that are strengthening Panama's pro-business environment, laying the foundations for FDI, creating jobs, and raising living standards.

"Panama is now led by business people that understand the dynamic of doing business. This allows us to be flexible and enables us to adapt to change very quickly. The paradigm of our economy makes investing here comfortable," he says.

President Martinelli, who attended a leading university in the U.S. before embarking on his successful career, says his administration is investing heavily in a range of major new infrastructure, including highways, hospitals, hotels and convention centers. "This massive and aggressive infrastructure plan will promote our many competitive advantages," he says. "Panama is a jewel that has been discovered by foreign investors and we welcome them to a unique and marvelous country that has a good quality of life, low inflation, an efficient and competitive economy, and wants to be the bridge to the world."

Spearheading the government's efforts to attract fresh FDI is Panama's Minister of Economy and Finance, Alberto Vallarino. The experienced banker is determined to bolster fis-



Ricardo Martinelli
President



Alberto Vallarino
Minister of
Economy
and Finance



Bridging the gap: Panama's modern, pro-business economy puts it ahead of other investment destinations in the region.

cal growth through a range of incentives and initiatives. Top of his agenda is the signing of double taxation deals with major countries that will ensure Panama's removal from the Organization for Economic Cooperation and Development's (OECD) so-called "gray list".

This positive move will ensure fresh FDI flows into the Central American country and Minister Vallarino highlights the energy, transport, agricultural, financial services, tourism, and construction sectors as areas for lucrative investments.

"In recent years, Panama has experienced a great economic expansion and performed better than other countries in the region, though we need to improve the distribution of wealth and close the gap between rich and poor," says Minister Vallarino.

The Panamanian government has now signed, or is close to signing, double taxation treaties with Mexico, Italy, Belgium, Barbados, and the Netherlands, while talks have been planned with finance chiefs from France, Chile, Japan, Spain, the United Kingdom, Switzerland, Luxemburg, and Qatar. It has requested similar talks with non-OECD member countries, such as Israel, Singapore, and Hong Kong, as it looks to reinforce its growing international reputation.

"Panama now has investment grade status and actively signing free trade agreements with leading countries around the world. Through these agreements and our removal from the OECD gray-list, we will attract greater FDI, improve the economy, and achieve the aims set out in our five-year strategic plan," Minister Vallarino says.

"We are modernizing our tax system through reforms that will improve efficiency and collection levels. We are focused on improving the quality of life for all Panamanians so our public spending programs will concentrate on reducing poverty and raising the quality and availability of health and education facilities and other services."

As Panama increases its presence on the international stage, leading non-governmental organizations and institutions such as the World Bank are offering their support and expertise, as well as low-cost loans. During her visit to the country's capital, Panama City, in July 2009—during which she announced additional funding of U.S.$150 million—the World Bank's Vice President for Latin America and the Caribbean, Pamela Cox, said: "Panama is an important partner and we have come to reiterate the World Bank's support to the government's agenda and to discuss future cooperation strategies," she commented.

The World Bank was also among the organizers of this year's "Panama: It's Happening Now" conference where the full range of FDI opportunities and challenges were showcased and discussed by leading figures and industry experts.

> The government is proactively seeking international agreements and improving transparency to attract FDI.
> ALBERTO VALLARINO, MIN. OF ECONOMY & FINANCE

As part of the government's long-term economic blueprint, officials plan to combine the expansion of the private sector with public spending works that, together, should create up to 500,000 new jobs by 2020. As a share of GDP, Panama's current and future public investment in infrastructure is one of the highest in the region. Projects include schools, hospitals, houses, transport networks such as the new Metro system for Panama City, power stations, offices, and ICT networks.

The administration is also focused on tourism. "Panama will soon be a top luxury tourism destination as we showcase our unique natural beauty," Vallarino says. "The perspectives for Panama are very positive, therefore we invite investors to come and invest. Panama is very open to investments."

For further information, please contact:
www.presidencia.gob.pa or www.mef.gob.pa



Global Green Business Summit

June 8, 2010, Tuesday
Shanghai World Financial Center

The world continues to move toward a low-carbon economy, but without a "global deal" to define the rules of the road. The Great Energy Race is on, and different regions, nations and localities are deploying a wide variety of strategies to accelerate the transition and encourage sustainable behaviour. As a result, business leaders must navigate a global patchwork of standards, mandates and regulatory schemes. For the most nimble companies, this is the time to devise new strategies for an emerging era of uncertainty and opportunity. Those that seize the moment will prosper; those that wait for a detailed rule book risk being left behind.

At our second annual **Global Green Business Summit**, Bloomberg BusinessWeek and the China Enterprise Confederation will shine a spotlight on the smartest strategies from the most innovative global players. We will also identify new products, services, and processes designed to safeguard the well-being of future generations without sacrificing corporate profit.

Bringing together thought leaders, senior governmental policy-makers and top business executives from a range of sectors, this international summit will examine the key sustainability challenges and opportunities of the next five to ten years. The race is on—and the Global Green Business Summit offers a crucially important map to what lies ahead.

Conference Co-Chairmen:
Norman Pearlstine, Chief Content Officer, Bloomberg L.P. & Chairman, Bloomberg BusinessWeek
Wang Zhongyu, President, China Enterprise Confederation

Why attend?
- Hear how global brands are implementing profitable green solutions to the challenges of climate change
- Come to grips with the strategic implications of a de-carbonized global economy
- Network at a senior level with other green business visionaries
- Understand the implications of new and upcoming policy and regulations
- Discover how you can maximize both financial return and social good
- Exchange ideas, hear about new initiatives, and brainstorm solutions

Speakers under Invitation :
- Xie Zhenhua, Vice Chairman, National Development and Reform Commission (NDRC) of China
- Zhou Shengxian, Minister, Ministry of Environmental Protection of China
- Zhu Hongren, Chief Engineer & Spokesman, Ministry of Industry and Information Technology of China
- Jiang Mianheng, Vice President, Chinese Academy of Sciences
- Zhu Jimin, General Manager, Capital Steel Corp
- Fu Chengyu, General Manager, China National Offshore Oil Corp
- Li Yong'an, General Manager, Three Gorges Corp
- Liu Zhenya, General Manager, State Grid
- Anil Srivastava, CEO, Areva Renewables
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Etc.

Expect to be royally surprised by Berlin Page 80





The Mother of All Office Dramas

Now that breastfeeding employees have legal rights, will workplace lactation be less embarrassing?

By Lauren Sandler

Photographs by Darren Braun

NEFERTITI: ANDREAS RENTZ/GETTY IMAGES

Etc. Lactation

When a high-profile chief executive officer–a friend who will go unnamed–recently returned to work after having her first child, she was determined to bridge the executive-mom divide: She decided to nurse her baby. Having given new life to a struggling company, and now a daughter, she wondered how hard could it be to pump between meetings? On her first day back, she had an offsite appointment and asked for a private room where she could nurse. She was pointed to an office and told that its occupant was out for a spell; in the meantime, someone would keep an eye on the door to make sure he didn't barge in on her in lactation delicto. Only five minutes after she had partially disrobed and hooked herself up to the pump she had lugged along, he opened the door and literally screamed at the sight of her. After dressing, she bumped into him "telling at least five other guys what had happened," she remembers, "and how embarrassing it was for *him*."

That's why, if you're at a certain accounting firm in Knoxville, Tenn., and you see a seemingly innocent marker such as a rubber band on the doorknob of an unused office, or pass the computer supply room at a law firm in Detroit and spot a blank piece of paper taped to the door, do yourself–and the woman inside tangled in electrical cords and suction cups–a favor: knock. Stories of business lunch leakage and pump-room run-ins may seem like scenes from a Judd Apatow comedy, but chances are, whether you work at a fast-food chain or a Fortune 500 company, you'll have a run-in with the realities of workplace lactation.

Advocacy groups argue that businesses benefit from embracing workplace lactation



From Trading to ... Burping?

The British government recently approved a universal paid paternity leave policy of up to three months for men whose wives go back to work after childbirth. (The pay, however, is a stingy $200 per week.) In the U.S., paid paternity leave is offered by only 13 percent of companies, and just 60 percent of American men with access to it, paid or otherwise, take advantage of the option.

Many major Wall Street banks are counted among the former group. Judging a bank by its paternity leave policy (chart) may be difficult. At Goldman Sachs, approximately 10 percent of the bank's male employees took some form of paternity leave in 2009. At Credit Suisse, with about 12,000 employees–the majority of them men–only 75 fathers of newborns took advantage of the benefit.

PERMITTED PATERNITY LEAVES ON WALL STREET

Bank of America	12 Weeks
Credit Suisse	12 Weeks
JPMorgan Chase	12 Weeks
Goldman Sachs	4 Weeks
Citigroup	2 Weeks
Barclays	1 Week

This is true now more than ever because the Patient Protection & Affordable Care Act signed by President Barack Obama in March requires employers to provide breastfeeding employees with "reasonable break time" and a private place–not the ladies' room–to express breast milk during the workday until a child's first birthday. However helpful, the law is too late to benefit many, including LaNisa Allen of West Chester, Ohio, who was fired from her job at a Totes-Isotoner warehouse a few years ago for taking an unscheduled break to relieve her engorged breasts. (Her bosses denied her permission.) In 2009, Allen's case reached the Ohio Supreme Court, which ruled against her. Like many nursing moms who have faced discrimination, Laura Walker, a waitress at a Red Lobster in Evansville, Ind., opted to keep her travails out of court. Her hours were reduced after she presented a nurse's note explaining her need to pump. (It got worse when her manager shook milk containers like maracas, saying they were for her.) Walker ended up in the hospital with mastitis from clogged ducts, and filed a complaint with the Equal Opportunity Commission. She reached a confidential settlement with the company in 2006.

Recent years have brought some progress. A third of large corporations now have lactation rooms, according to the Families & Work Institute. The American Institute for Architects has even released a paper on lactation room design to help companies establish a "calm, restful environment." However, not all workers within a company have the same privileges. The executives at Totes-Isotoner, for example, enjoy the benefits of a private "mother's room" in their corporate offices, which would have been a great help to Allen. At its Seattle headquarters, Starbucks supplies pumps to nursing employees, along with comfortable recliners and magazines, yet in-store baristas are forced to pump in public bathrooms.

This is at a time when more women are lactating at work than ever before. In 2008, 70 percent of mothers–the fastest-growing segment of the U.S. workforce–with kids under three-years-old worked full time, according to the Centers for Disease Control & Prevention. One-third of these mothers went back to work when their baby turned three-months-old, and another third was back by the time their kid hit the half-year mark. (Meanwhile, the CDC estimates that almost three-quarters of mothers nurse their newborns.) These figures don't take into account another recent development: Last year popular social-networking site CafeMom polled almost 15,000 new mothers and discovered that 16 percent were returning to work sooner than they had planned because of the recession.

Advocacy groups argue that it's in the best interest of businesses to embrace workplace lactation. At a time when women are the primary breadwinners in two out of five families in the U.S., according to the Center for American Progress, and more women are breastfeeding than ever before, workplace lactation

ILLUSTRATION BY GILBERT FORD; OPPOSITE: DARREN BRAUN FOR BLOOMBERG BUSINESSWEEK



"makes money for businesses," says Cathy Carothers, director of marketing at the International Lactation Consultant Assn. and a mother of five. Carothers supports "The Business Case for Breastfeeding" campaign, launched in 2008 by the federal Health Resources & Services Administration. "We've found it results in lower absenteeism, lower turnover, and lower health-care costs," she says.

In some cases, it isn't cheap. When Becky Friedman, a New York-based producer of commercials was required to take long trips to a set in Los Angeles, she pushed her company, advertising agency BBDO, to rent a hospital-grade pump and pay for her to FedEx home her milk packed in dry ice. "I pumped everywhere I could find a somewhat private place–in stairwells, in edit suites," Friedman recalls. It wasn't completely normal for all her colleagues, however. "On the last day, one of the young guys on set asked me what was in the briefcase I had been carrying around, and when I told him it was the pump, he just about fell over. He would have been less shocked if I had told him it was filled with heroin."

No one is immune to the potential embarrassment. In her recently published book, *Just Let Me Lie Down*, *Real Simple* magazine Editor Kristin van Ogtrop recalls a "wardrobe malfunction" in which

A recent poll found the recession had 16% of new mothers returning to work sooner than expected

her breasts soaked through her orange blouse as she was laying off a tearful employee. "It was horrifying," she writes. "But what do you do? If you are a confident woman who is good at your job and has a good sense of humor, there's no way you can't handle it." When Liza Zenni, then the executive director of a San Francisco arts organization, ended a meeting of her all-male board of directors, she discovered that half of her grey silk dress was drenched black. It "had been obvious to everyone around the table except, of course, me," she says. Her colleagues, fathers all, reassured her they had seen it all before and helped her laugh it off.

"The life of a working mom is easier when the two sides of her can be a little more intertwined," says van Ogtrop, whose colleagues sometimes leave their pumps in the office kitchen sink. "Then again, I work at a woman's magazine. We talk about thongs during meetings because it's our job."

Breast-feeding on the job is becoming more normative and more supported, which is good news for everyone except the silk blouse industry. Though it hasn't healed some old wounds. One battle-worn new mom still remembers nursing in her office's ladies' room and turning up her iPod to drown out the sound of the pump. B

Cause for Alarm



If you want to use it as just a clock, the Dash has more than 200 displays to choose from

Timeless Fun
The Dash allows users to check their Facebook and Twitter feeds

Shape Shifter
The wedge design includes a 7-in. screen, stereo speakers, and a microphone

Web viewer? Sure, but the Dash may also be the coolest alarm clock—ever. *By Rich Jaroslovsky*

Sony calls its new $199 Dash a "Personal Internet Viewer," but they got it wrong. The Dash might be the world's coolest alarm clock.

The competition isn't fierce. There's Clocky, which jumps off your nightstand and rolls around the room screaming until you shut it off. There's also Chumby, an eccentric, Wi-Fi-enabled device that runs some 1,500 applications.

The Dash is based on the Chumby. It too connects to your home Wi-Fi network and runs the same apps, both the practical (such as one that allows you to scour Craigslist.com entries) and otherwise (another lets you to tickle an animated SpongeBob). Sony has replaced Chumby's funky design with a sleek wedge shape housing a seven-inch touchscreen and stereo speakers. A snooze button on top doubles as a menu controller, ports on the side accommodate headphones and a USB drive, and the built-in microphone suggests the possibility of future intercom or Skype-based apps. The Dash is probably the first alarm clock on which you could, if you wanted, watch a full-length movie. It comes with a built-in viewer for watching Netflix's streaming service as well as videos from Amazon.com. (Additionally, an accelerometer reorients the screen if you decide to lay it flat.)

You can also check Facebook or Twitter feeds, display online photo streams, or wake up to one of your personal Pandora Internet radio stations. If you want to use the Dash primarily as a clock, it has more than 200 different time displays, including one that gives you the time in words rather than numbers. Apps can be added, subtracted, and arranged into custom channels via a Sony Web site.

Unfortunately, the Dash suffers from too many early bugs and oddities. Setup was more cumbersome than it should have been: At first the Dash wouldn't let me manage some settings because it wrongly thought it hadn't yet been registered. Sony says it's pushing out a software fix to address the issue, which is another advantage of being Internet-connected.

There's also the puzzling lack of a battery-power option, which tethers it to the wall and puts you out of luck if there's a power failure when you're supposed to wake up—a considerable risk. While the Dash doesn't necessarily provide a solution to any particular need, it slices off pieces of the Internet and pushes them past your groggy eyes without your having to summon them. And it also doesn't jump off the nightstand and run around the room screaming. B

COUNTER CULTURE

A half-dozen happy marriages between form and function



Numbers Clock
Artist Jonas Damon's LED cubes can be stacked up or set in line. $85, momastore.org



Clamshell Alarm Clock
This old-school pop-up portable has springs, hinges, and classic lines. $30, dwr.com



Modern Gears Table Alarm Clock
Watch the gears turn on an antique auto-inspired model. $45, wrapables.com



Clocky by Nanda Home
Whether it strikes you as annoying or charming, it gets you out of bed. $45, nandahome.com



Lexon On Off Alarm Clock
Pushing this LCD clock to the tilt gives you an extra snooze. $38, switchmodern.com



Chumby Classic
The Dash predecessor plays podcasts and sends e-cards. $150, chumby.com

TOP: PHOTOGRAPH BY JAMIE CHUNG FOR BLOOMBERG BUSINESSWEEK

Etc. Work Drug



The Iced Age

Americans are drinking their coffee cold–and companies are taking note

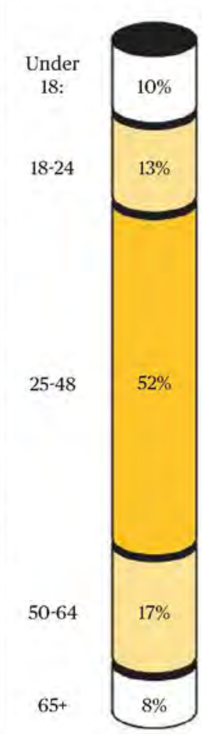
Iced coffee is a hot business. What used to be a strictly warm-weather, warm-region drink has broadened its appeal. In 2001, Americans drank 300 million servings of it (or its slushy frappé-style cousins), according to market research firm NPD Group. Last year the number was up to 1.2 billion servings–equal to one-fifth of all the coffee Americans drink.

Large corporations have taken notice. Starbucks has sold a double-brewed–meaning double the amount of grounds–iced coffee blend, Terraza, year-round in all of its stores since 2006. McDonald's launched its Premium Roast Iced Coffee in 2007. Last year, 7-Eleven put iced coffee machines in 4,500 stores. "Our iced coffee sales are strong in Phoenix and Miami, as well as Providence and Boston," says John Costello, chief global marketing officer for Dunkin' Brands, whose Dunkin' Donuts sold 250 million servings of iced coffee (also double-brewed) in the year ended in February. That's 14% more than the previous year.

This summer the cold war will escalate. The Cumberland Farms convenience store chain is introducing iced coffee in 500 locations. Last month, Dunkin' Donuts debuted a second iced coffee offering, Iced Dunkin' Dark Roast. Starbucks, which already sells packages of Gazebo Summertime Blend for the home, is rolling out VIA Iced Coffee, an instant coffee in a packet tailored for emptying straight into a 16-oz. water bottle. And in stores in Phoenix and Tampa, it's testing a bigger-than-Venti size, the 31-oz. Trenta.

Explanations for the boom, which has been driven mainly by women and younger consumers, vary. (Women make up 64 percent of iced coffee drinkers, while 52 percent of all servings are consumed by Americans aged 25 to 49, according to NPD.) "I don't want to speak for 300 million Americans," says Sharon Zackfia, an analyst with equity research firm William Blair, "but the millennials are the first generation to grow up with Starbucks. They have an affinity for that coffee taste, and they certainly like energy beverages like Red Bull." Of course, Big Coffee is surely attracted by the higher prices charged. At my local Starbucks in New York, for instance, a 12-oz. hot coffee costs $1.70, while an identically sized iced coffee (with ice cubes taking up a considerable part of the volume) fetches $2. The losers in all this are soft drink makers, whose market share has been slowly eroded by alternative cold drinks, including iced coffee. B —*Benjamin Wallace*

ICED COFFEE DEMOGRAPHICS



PHOTOGRAPH BY JAMIE CHUNG FOR BLOOMBERG BUSINESSWEEK

The Bike

Ensuring that your commute is as stylish as it is effortless

The Want: A sturdy, safe vehicle that can be stored at work and gets you there in one piece.

The Get: Brompton's 25-pound M3LA (as shown, $1,350 at bicyclehabitat.com) has a steel frame and rear suspension that buffers some of the bumpiness that folding bikes are known for. Its high handlebars deliver an upright, responsive ride, and the frame folds and locks into a package a little larger than the wheels in 15 seconds. With the chain in the middle, you won't get grease on your suit. B
—Stephen Treffinger





WORK (OUT) GEAR

Clothes to take you from the road to the office



The Shirt

Jos. A. Bank Stays Cool Wrinkle-Free Point Collar Gingham Dress Shirt, $80, josbank.com
It's sweat-resistant, too



The Pant

Nike Dri-FIT Flat Front Tech Men's Golf Pants, $75, store.nike.com
Khaki-colored stretch trousers make mounting easier



The Skirt

Adidas by Stella McCartney Golf Performance Skirt, $90, adidas.com
This updated pencil skirt wicks sweat from skin

BICYCLE: PHOTOGRAPHS BY JAMIE CHUNG FOR BLOOMBERG BUSINESSWEEK (2)



Beware a Bernanke-Fueled Market Bubble

Jeremy Grantham sees just a small chance of a strong recovery—but finds high-quality stocks cheap

The only things that really matter in investing are the bubbles and the busts. Bubbles are obedient in one sense—they break. It's like throwing feathers into a hurricane: Some feathers will stay up for two weeks and some for two months, but we know with certainty they will all eventually hit the ground. And the feathers have been flying recently.

Ben Bernanke is a true academic. He doesn't believe in bubbles, and so he can't see them. He will be perfectly relaxed as he approaches the next cliff, which will be a broad-based speculative bubble created by the same forces that brought us the last two: Artificially low interest rates. The stock market is up 80 percent and speculative stocks are up 140 percent. I estimate there is a 75 percent chance we will see a bubble and bust for the third time since 2000. It's a hell of a way to run a ship.

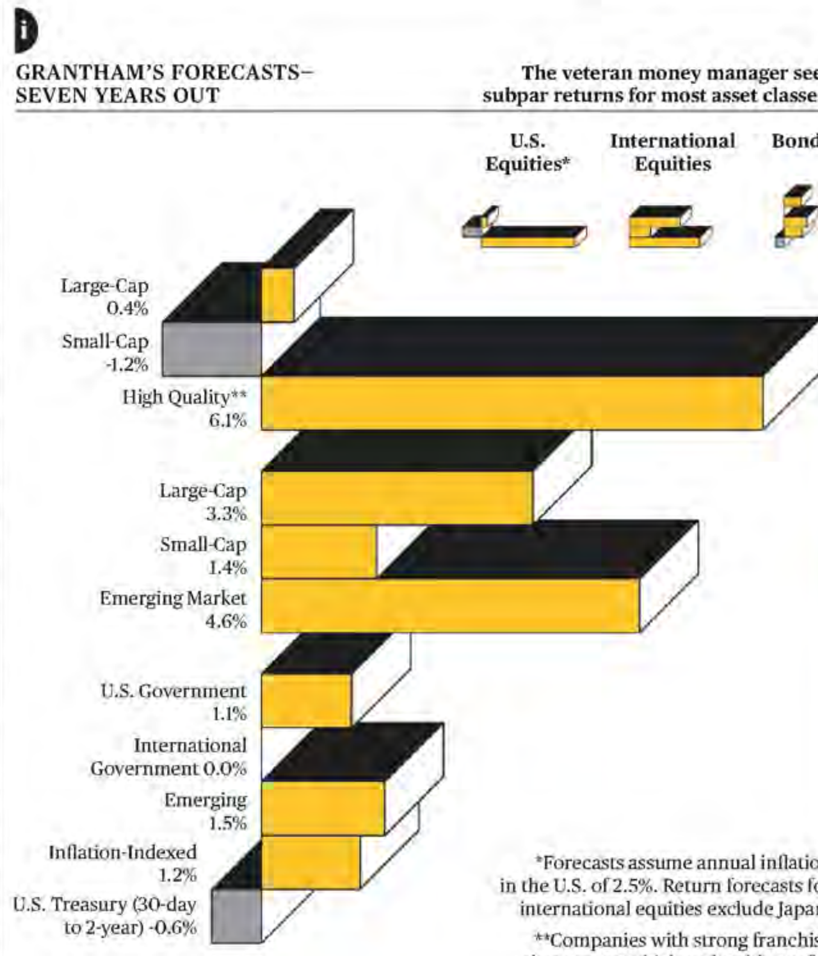
There is a 25 percent chance that the economic recovery in the U.S. could be strong, broad, and sustained, which would surprise 90 percent of investors. No one can stop interest rates from rising in that kind of a recovery. We could get lucky and have some air let out of the market in the six months before October, which is just more than two years before the next election. Presidents often push the tough measures in the first two years, then look ahead to reelection and manage the economy more with an eye to keeping unemployment low and paychecks fatter.

Plenty could go wrong, and market psychology is quite fragile. That said, there has not been a serious decline in year three of a Presidential cycle since 1932. So I say to value-oriented money managers: Do not expect the market to come down just because it is overpriced going into year three of a Presidency.

While the U.S. market is very overpriced, large high-quality companies are still a little cheap. The market would be at fair value with a price-earnings multiple of 16, so the p-e of high-quality franchise stocks should be higher, say, 17. High-quality stocks are those of companies with high and stable profit margins. If margins are high enough, increased competition usually brings them down. But if margins stay high and stable, then they have what Warren Buffett calls a moat—a protected franchise. These companies are price-setters: Coca-Cola, Johnson & Johnson, Microsoft. J&J has a p-e of 13. Even though quality stocks are cheap, they've still outperformed the overall market by 40 percent over almost 50 years.

GRANTHAM'S FORECASTS—SEVEN YEARS OUT

The veteran money manager sees subpar returns for most asset classes.



*Forecasts assume annual inflation in the U.S. of 2.5%. Return forecasts for international equities exclude Japan.

**Companies with strong franchise that generate high and stable profits over the long term

DATA: GMO; AS OF MAR. 31

There hasn't been a serious decline in year three of a Presidential cycle since 1932

Global equity markets, taken together, are moderately overpriced. And emerging markets don't have a huge percentage of high-quality franchise companies. Nor do other developed nations. It's mainly an American factor. We have close to 80 percent of the world's franchise companies. It's another way of saying that Coca-Cola and J&J don't grow on trees. Nevertheless, emerging markets are a reasonable value for long-term investors. They have growth. We don't. B —*As told to Christopher Farrell*

The Stats: Jeremy Grantham, 71, is chief investment strategist at GMO, which manages $107 billion in assets for institutional and high-net-worth investors. A mutual fund that approximates GMO's asset allocation strategy is the Evergreen Asset Allocation Fund (EACFX).

GLASS: BURKE/TRIOLO PRODUCTIONS/GETTY IMAGES

Berlin

Germany's wild-child capital has been spiffed up, but it's still freewheeling

Berlin is often thought of as a hippie-dippy artist's colony that's low on luxury. In recent years the city has grown into an edgy art capital with a sophisticated array of hotels, galleries, and restaurants. Since it's easily accessible from London and Paris (flight times are under two hours from both hubs), Berlin is the perfect place to spend a day indulging in the sort of gritty, old-Europe bohemia you won't find in Milan or Rome–while paying a fraction of what you would in those cities. Go next month to catch the Berlin Biennale, which runs from June 11 to Aug. 8.

The most recent sign of Berlin's ritzy rebirth is the month-old **Soho House,** a luxe hotel with 40 retro-glam rooms (around $120 a night) and a rooftop lounge with views of the iconic **TV tower.** At an even lower price, the $80-a-night **Michelberger Hotel** (is there *any* hotel in London that's this cheap?) epitomizes boho-Berlin design with cuckoo clocks, exposed wood, and lofted beds. At the opposite end of the spectrum, the grand **Hotel de Rome** (where rooms begin at $500) inhabits a 19th century bank: The hotel's suites were once executives' corner offices, and the vault is now a dim-lit basement pool.

Most things arty are in **Mitte,** the city center, home to well-known historical sights (**Museum Island,** the cathedrals of the **Gendarmenmarkt Square**) as well as **Scheunenviertel,** a quaint cluster of side streets and prewar buildings. Start there at the Biennale's headquarters, the **KW Institute for Contemporary Art,** a converted margarine factory with five floors of exhibition space that will remind New Yorkers of the Museum of Modern Art's P.S.1. Next door, collector Thomas Olbricht just opened **Me Collectors Room,** an expansive mini-museum filled with his own eclectic stash of work by everyone from South African artist Marlene Dumas to American photographer Cindy Sherman. Nearby, the **Eigen+Art** gallery is a buyer's favorite for paintings, video, and sculpture by young innovators, and **Andreas Murkudis** is a design-concept shop selling soft, minimalist Schiesser cotton sweaters and Damien Hirst-style porcelain skulls. From there, venture north to **Chipps,** an industrial-style eatery serving cheese dumplings and potato pancakes. Its unfortunately named but well-regarded sister restaurant is a prix-fixe vegetarian joint called **Cookies Cream.** On nice days, locals play frisbee or sunbathe on a five-acre field in the middle of East Berlin, where the East German Parliament building stood until 2008.

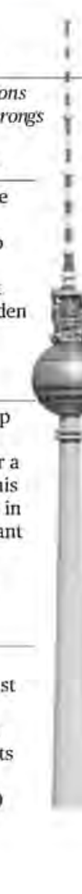
The **Neues Museum,** which sat in ruins for 60 years after it was bombed during World War II, reopened in late 2009 with a new design by architect David Chipperfield and a permanent collection of Egyptian and classical objects, including Nefertiti's famous bust. Spend a few hours amid its 9,000 ancient artifacts, then travel further afield to see jarring neon art by Martin Kippenberger and his ilk hanging in **Capitain Petzel,** a 1960s glass pavilion once used to show socialist propaganda. For a fancy dinner, the Michelin-starred **Fischers Fritz** is a high-ceilinged restaurant famous for French-influenced dishes like frog legs with sauerkraut. If it's warm, try the more casual **Rodeo Ressort,** an alfresco canal-side spot that serves Argentinian-style grilled meat. End your day with a crisp, gingery Moscow Mule at **Tausend Bar,** with its unmarked door and futuristic interior. If an artier scene is what you're after, opt for a nightcap of Kölsch beer at the dark, U-shaped bar in **Bar 3.** B —*Kimberly Bradley*



Rooftop lounge at the Soho House

SIGHTS SCENE

Hit the main attractions while avoiding the throngs



Brandenburg Gate
Book an outside table at Hotel Adlon's Restaurant Quarré to get a view of the Gate—and an elegant meal (Unter den Linden 77, hotel-adlon.de)

Berlin TV tower
For an expedited trip up the 680-foot-tall ball on a stick, order a VIP ticket online. This also gets you a table in the rotating restaurant (Panoramastrasse 1A, tv-turm.de/en)

Berlin Wall
Skip the packed memorial for the East Side Gallery to see a 4,000-foot stretch painted by 100 artists (Mühlenstrasse 1, eastsidegallery.com)





Afternoon in Mitte



Capitain Petzel gallery



Tausend Bar



Me Collectors Room museum

BERLIN AT A GLANCE

Neues Museum
Genthinerstrasse 38;
neues-museum.de

KW Institute for Contemporary Art
Augustrasse 69;
kw-berlin.de

Bar 3
3 Weydingerstrasse 20;
(no Web site)
+49 30 2804 6973

Soho House
Torstrasse 1;
sohohouseberlin.com



Tausend Bar
Schiffbauerdamm 11;
tausendberlincom

Chipps
Jägerstrasse 35;
chipps.eu

Andreas Murkudis
Münzstrasse 21,
second courtyard;
andreasmurkudis.net

Capitain Petzel
Karl-Marx-Alee 45;
capitainpetzel.de

PRICE POINTS

Flights (June round-trips)

London, $170 **Milan,** $120 **Paris,** $250

Food & Drink

Lunch for two, Chipps (cheese dumplings), $22

Dinner for two, Fischers Fritz (frog legs with sauerkraut, bretonian lobster, Hokkaido-pumpkin brittle to share, two glasses of Spanish red), $210

Dinner for two, Cookies Cream (cabbage-and-orange soup, grilled asparagus with capsicum ravioli, chocolate-rosemary-fondant), $82

Moscow Mule at Tausend Bar, $10

Hotels

CHEAP: Michelberger Hotel, $80

MID: Soho House, $120

AWESOME: Hotel De Rome, $500

Etc.

Taxi from Tegel Airport to Berlin Mitte, $25

KW Institute for Contemporary Art, $8 admission

Me Collector's Room, $8 admission

Neues Museum, $13 admission

Porcelain skull from Andreas Murkudis, $300

CLOCKWISE FROM BOTTOM LEFT: GETTY IMAGES; SOHO HOUSE BERLIN; PHOTOSHOT; CAPITAIN PETZEL; BERND BORCHARDT; TAUSEND

A lavish spender, Henry Goldman once gave Albert Einstein a 23-foot sloop



GOLDMAN: COURTESY OF JUNE BRETON FISHER

Building an Empire, One Goldman Brick at a Time

An intimate history of the man who made Goldman Sachs

By Charles D. Ellis

Henry Goldman was, in the early 20th century, a great investment banker. Creative, decisive, formidably effective, and a shrewd judge of character, the son of Goldman Sachs founder Marcus Goldman invented the basic concept of valuation we all use today. When public finance was new and credit was based solely on balance-sheet assets, the German-born Goldman was the first to recognize that "industrial" companies, such as retailers and manufacturers, could be valued on the capitalization of their earning power instead.

Goldman first took public United Cigar—a process that required several months of persistent selling to complete and rewarded Goldman Sachs with a full 25% of the offering as a "commission." The firm next floated Sears Roebuck, a transaction that took several months to close. Profits from the deals doubled the firm's $10 million in capital as the share prices of both stocks grew—and then grew again. This pair of offerings was breathtaking at the time, and it set the stage for an astonishingly creative and adaptable company.

When Money Was in Fashion: Henry Goldman, Goldman Sachs, and the Founding of Wall Street
by June Breton Fisher
PALGRAVE MACMILLAN
288 pp., $27.00



Investors were impressed, and Goldman Sachs was established as a firm to be reckoned with.

Henry Goldman was on his way to a substantial fortune and a larger-than-life existence. Along the way, he and his friend—and summertime next-door neighbor—Philip Lehman of Lehman Brothers brought their two firms together in a powerfully successful partnership. They underwrote Underwood Typewriter, May Department Stores, Cluett Peabody, Studebaker, CIT, and more than 100 other corporations. With a string of successes, Goldman's reputation soared.

When Money Was in Fashion: Henry Goldman, Goldman Sachs, and the Founding of Wall Street is an intimate history of the man written by his granddaughter, June Breton Fisher. While it isn't the rigorous biography of the pioneering financier that some students of business history crave, it's a graceful account of Goldman and his era.

Fisher provides an often charming family scrapbook, with insights into the cruelty of Nazi Germany as well as the systematic repression of Jews by German Catholics over 100 years before that. She touches on the difficulties of refugees' passage to America and sometimes expands into observations on international politics or high finance. She also reminisces about the family's luxurious "camp" in the Adirondacks and Goldman's extraordinary life. While veiled, as family stories often are, the au-

thor's accounts describe the persistent animosity between Henry Goldman and his brother-in-law and colleague, Samuel Sachs. Their differences in personality, values, and capabilities were exacerbated by Henry Goldman's great success as a stock speculator and Sachs' jealous tantrums.

Although not much new about Goldman's career as an investment banker is revealed, we learn much about the man behind that career. He summered annually in Germany, and he celebrated the achievements of German culture and government as few could. He patronized German musicians, and he publicly supported Germany as World War I spread. When Goldman refused to allow Goldman Sachs to participate in a $150 million Anglo-French bond issue arranged by J.P. Morgan, a long-festering dispute became an irreconcilable confrontation. In 1917, after 35 years of association, Goldman withdrew from the firm to which, he said, "I have given all that is in me."

Goldman continued to manage his own fortune, and his shrewd anticipation of the Crash of 1929 allowed him to maintain it. Despite the fact that his always poor eyesight deteriorated later in life–requiring numerous operations, all unsuccessful–he began seriously collecting art and lived on a grand scale. The renowned and notorious art dealer, Joseph Duveen, helped him accumulate a superb collection of Renaissance works, and the hobby soon turned into addiction with a trove that included Fra Angelico, Franz Hals, Titian, Masolino, Donatello, Rubens, and Van Dyck.

At 80, Goldman decided to sell the lot. As usual, he was decisive and wanted to complete the sale swiftly. In a particularly telling anecdote, when the discount store owner Samuel Kress needed a bit more time to make a firm offer, Goldman sold his entire collection for $775,000 to Duveen, who turned around and sold it to Kress at a markup.

Goldman's wealth, brilliance, and love of German culture led to a series of friendships, acquaintances, and meetings with some of history's great figures: Albert Einstein (to whom he gave a beautiful 23-foot sloop); Woodrow Wilson; Franklin Roosevelt; Paul von Hindenburg (who conferred honorary Germany citizenship on him); physicist Max Born; Fritz Kreisler; Thomas Mann; and Arturo Toscanini.

It would be easy to complain about Fisher's decision to devote 5% of a book on Henry Goldman to his late-in-life patronage of 12-year-old music prodigy Yehudi Menuhin, to whom he gave a Stradivarius violin as a birthday gift. On the other hand, some might see this as the point of an intimate biography about an enigmatic figure. There are certain incidental inaccuracies, too, such as identifying a Franz Hals painting as being in the National Gallery of Art when another well-known Hals is actually the portrait on display, or calling Waddill Catchings "a well known American economist" when he was an executive who wrote a naïvely oversimplified book about America's glorious economic potential that fit with the excessive optimism leading up to the Great Crash. The author also omits any discussion of Catchings' central role in the spectacular failure of Goldman Sachs Trading Corp. in 1929, which nearly brought the firm down.

When he left the firm after 35 years, Goldman said, "I have given all that is in me"

In the end, it is ironic that the great firm increasingly cited as "Goldman" has not had a member of the Goldman family among its ranks for nearly a century. Successful in an era of individualists, Henry Goldman couldn't have fit in today at the organization that bears his name. B

Bank Notes

Another ubiquitous effect of the financial crisis is the abundance of nonfiction books attempting to address it. Within this already turgid oeuvre is a fast-growing sub-genre: books about Goldman Sachs. As seen below, even this sub-genre can be dissected further.

Goldman as Evil Empire

The Insider's Goldman

Goldman History 101



Chasing Goldman Sachs: How the Masters of the Universe Melted Wall Street Down... And Why They'll Take Us to the Brink Again by Suzanne McGee
McGee sees the bank as a behemoth with only near-term interests in mind



On the Brink: Inside the Race to Stop the Collapse of the Global Financial System by Henry M. Paulson Jr.
While the memoir recounts Paulson's tenure as CEO, it fails to mention the $500 million in Goldman stock he sold before accepting his post at Treasury



The Greatest Trade Ever: The Behind-the-Scenes Story of How John Paulson Defied Wall Street and Made Financial History by Gregory Zuckerman
The author claims hedge-fund manager John Paulson's personal gain from betting against the housing bubble in 2007 was more than $10 million a day



The Partnership: The Making of Goldman Sachs by Charles D. Ellis
The decade-in-the-making history of the bank's founding by the author of this week's review

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Etc. Hard Choices

Patricia Dunn

“I didn’t pay much attention to what the other people charged were going to do. I had one goal in mind: to clear my name”

The former Hewlett-Packard chairman on fighting criminal fraud charges in 2006 after a company investigation of leaks to reporters



I was standing in Nordstrom buying a new jacket when my lawyer called to tell me that the California attorney general (Bill Lockyer) was filing four felony charges against me. It was Oct. 4, 2006, the day I was being interviewed by *60 Minutes*.

Leslie Stahl later told me that when she heard charges had been filed, she assumed I would cancel the interview. Lawyers are loath to have their clients make any public statement when they’re facing charges, but we decided, risk or no risk, I would go ahead and tell my story. I wanted to overturn all of the inaccuracies that were out there with respect to my role at HP—that I was the boss when I wasn’t even an employee, that I had somehow overseen this controversial investigation, and that I had done anything wrong.

I was facing four felonies and 12 years in jail. A few months later, I was offered a chance to plead guilty to a misdemeanor, which meant no jail time, but I felt so sure of the facts. I didn’t pay much attention to what the other people charged were going to do. I had one goal in mind: to clear my name.

I was fully prepared to go to trial, and accepting a misdemeanor would have undermined my whole purpose. I assumed it would be a long fight. I was battling cancer, and I needed to feel like I would be alive to see my way to the end. I couldn’t take the offer of a guilty plea. I knew I had to fight.

I was pleased with what the judge wrote about why the charges were dismissed in 2007. The key reason was that it was in the interest of justice. The prosecutors said it was because of health reasons, but they didn’t have a case. I’m not sure how being treated for advanced ovarian cancer affected my decisions, but I guess it made me more conscious of what really mattered.

Some of this experience was negative and unhappy, but it didn’t ruin my life. I’ve expanded my work in the nonprofit community. You can move beyond something like this. I don’t see it as having defined me. B

—*As told to Diane Brady*

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